



MANAGING IN A
MAELSTROM:
THE INSIDE STORY P.96

FOR

ISSUE 4.1.15

APPLE'S TIM COOK
LEADS
DIFFERENT

HOW HE'S
CHANGING THE
ICONIC
COMPANY
BY ADAM LASHINSKY

THE WORLD'S

50 GREATEST EACH ERS

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MOISÉS NAÍM ON VLADIMIR PUTIN P. 84 WHAT YOU CAN LEARN FROM THEM COLVIN P.75

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FORTUNE

FEATURES

The World's 50 Greatest Leaders

These extraordinary men and women are transforming business, government, philanthropy, and so much more. Here, our second annual list.

Becoming Tim Cook

Since replacing his legendary predecessor, the Apple CEO has led the technology behemoth to even greater financial success. Along the way he's changed the culture of the company and found his public voice as a leader. By Adam Lashinsky



The List: Intrepid Guides for a Messy World

Governments are failing, companies are under siege, and age-old institutions are losing their grip. How do you lead in a time when everyone is a free agent, following his own star? We've found 50 living lessons. By Geoff Colvin and the Fortune staff



The Unluckiest **President in America**

University of Virginia chief Teresa Sullivan has persevered through an aborted coup, the aftermath of two student murders, a scandal over an alleged gang rape, and more. Does that make her a good leader? By Patricia Sellers

Pop Goes the Art Market

Prices have inflated to record levels but that may not be good news for Sotheby's and Christie's. By Stacy Perman

51 Tesla's Model S sedan has wowed Wall Street, but the stock's recent dip has given investors a bumpy ride.

MACRO

Closer Look

How much does it really cost to run for President? Hey, just getting through the first five primaries will cost you \$50 million.

By Tory Newmyer

Inequality

Forays in the 1%. Plus: Why the Apple Watch may be good for Switzerland, and tax-prep blues.



Business Class The rise of the jet card. By Daniel Roberts

Finance

The sad "new normal" for investment banking. By Stephen Gandel

Global Power Profile

Chevron CEO John Watson's playbook for an era of cheap oil. By Brian O'Keefe

Economics

Don't believe those inflation numbers. Here's why. By Erika Fry

World's Most Admired Companies

How USAA became a tech all-star.

By Deena Shanker



VENTURE

How I Got Started

The man behind Fuddruckers-and more than 25 other hot restaurant concepts. Interview by Dinah Eng

Verne Harnish

Five ways to develop strong management.

Pro-Files

Former Bengals tight end Tony McGee tackles a startup. By Dan Greene

On the Move

Apps to help keep your business going while you're on the road. By Jennifer Alsever

TECH

Monologue

PayPal co-founder Max Levchin shares why his new company is a bank for the Digital Age. By Andrew Nusca

The Future of Work

A new service gives employees an anonymous digital forum for gossiping-and venting. By Erin Griffith



INVEST

Tesla has been one of Nasdaq's worst performers. Here's why you should buy it now. By Jen Wieczner

Road to Wealth

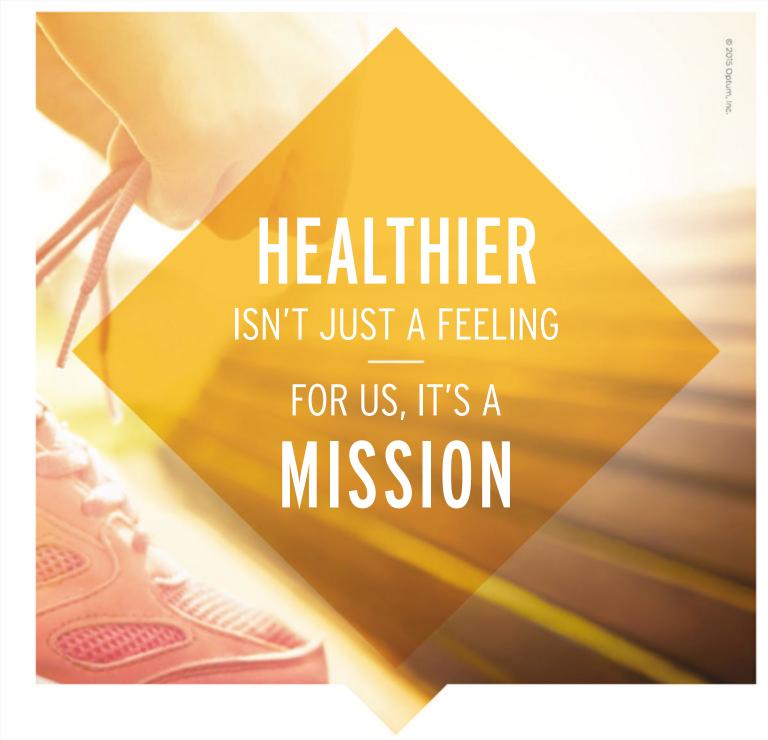
Time to dial up some telecom. By Janice Revell

8 EDITOR'S DESK 112 BING!

CORRECTION

"The Great Big Question About Really Tiny Materials" (March 15) misspelled the name of the company Sigma-Aldrich. Fortune regrets the error.





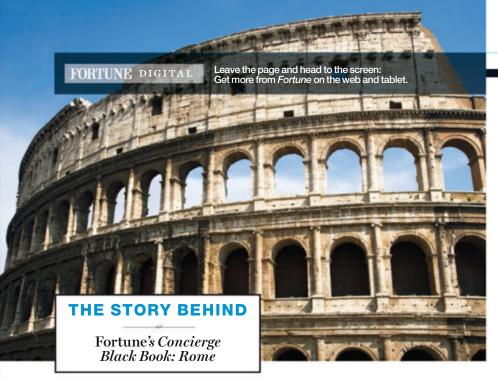


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HEALTHIER IS HERE

At Optum, Healthier goes way beyond a feeling. Quite simply, it's our passion and our purpose. As a health services and innovation company, we power modern health care by combining data and analytics with technology and expertise. Our insights quickly lead to better outcomes for hospitals, doctors, pharmacies, health plans, governments, employers and the millions of lives they touch. Which, come to think of it, is a pretty good feeling as well.

optum.com



Our Black Book series on Fortune.com asks concierges around the world to plan a perfect day in their city. This month we spoke with Salvatore Maraschio of the Rocco Forte Hotel de Russie in Rome. "I wasn't expecting Salvatore to be so full of life, so funny—loaded with amazing local tips," says Adam Erace, who interviewed Maraschio for an hour on the phone. "He was the best concierge I've interviewed for this series. He knew exactly what I wanted." With a subject like Rome, it's not hard to please. "It's one of my favorite cities in the world," Erace says. "It's so big that you can go there six times and have six entirely different experiences. And the food is amazing. The beer scene is crazy."

Read: fortune.com/apr2015-sb



There is no fear in Silicon Valley right now. A complete absence of fear."

—Bill Gurley, investor

Read: fortune.com/apr2015-pq



FORTUNE'S

We've never been one to turn down a social engagement, and this month brought two. Follow us on Snapchat (fortunemag) and Meerkat (@FortuneMagazine) for in-the-moment ephemera.

The Bold Tist

Who was bold this month?



A. Howard Schultz. The Starbucks CEO encouraged his company's baristas to discuss race relations with customers. (The

move sparked much criticism.) Read: fortune.com/apr2015-bl

FORTUNE FIVE

FIVE WAYS PowerToFly president Katharine Zaleski betrayed mothers she worked with:

- Questioned one woman's commitment when she didn't join a last-minute drinks outing.
- Stayed silent when a colleague suggested she fire a woman before she "got pregnant."
- Habitually scheduled last-minute meetings at 4:30 p.m.-prime day-care pickup hour.
- Let a male colleague grill a mother of three about time management during a job interview.
- Decided to abandon a collaboration because the partner in question was "too much of a mother."

Read why (and her apology): fortune.com/apr2015-ff



CONTRIBUTORS

The Obama Leadership Lacuna



I GREW UP AT A TIME when the President of the United States was routinely, and without irony, referred to as "the Leader of the Free World." So it is disturbing to publish a list of the World's Greatest Leaders that, for the second year in a row, excludes the current President (see page 59).

This isn't a political statement. Fortune, like most of its readers, celebrates practical success, not ideological rigor. My own politics are militantly centrist, and I have a presidential voting record that has ricocheted between parties as their standard-bearers have alternately seduced and disillusioned. I voted for Barack Obama in 2008 largely because of his call to unite blue states and red states behind a politics of hope. But it hasn't happened. At home our politics are as divided-and our federal government is as dysfunctional—as they were when he took of-

fice. Abroad, the record is worse. Many wise foreign-policy analysts believe the President's public waffling on Syria not only fed the terrorism of the Islamic State, but also emboldened thugs around the world—notably Vladimir Putin (see page 84). The President has dismissed their criticism by saying he is "less concerned about style points." But when it comes to leadership, style matters.

In his book On Becoming a Leader, the late Warren Bennis said the differences between leaders and managers are "the differences between those who master the context and those who surrender to it." It's a good distinction. Faced with difficult circumstances, President Obama has surrendered.

Defenders of the President will argue that he had no choice. Rising partisanship, increased public cynicism, and an unrelenting 24-hour, social-media-driven news cycle have made leadership at home all but impossible. And a multipolar world without effective multilateral institutions makes leadership abroad equally problematic.

But at Fortune we don't buy this argument. Nor do we share the "Where have all the leaders gone?" lament. With the help of a distinguished group of advisers, we have identified more than 50 women and men who have demonstrated superior leadership on the world stage, in government, business, nonprofits, and the arts. To be sure, most of them haven't faced the kind

of complex political and geostrategic challenges that President Obama faces. But each, in his or her own way, has been through the crucible of leadership and triumphed. Each has mastered context. Together, their stories give us hope.

Where have all the leaders gone? You'll find them in these pages.

ALAN MURRAY

Editor🌌 @alansmurray

Our Advisers

In compiling this year's list of the World's 50 Greatest Leaders, we gathered advice, fittingly, from more than two dozen of the world's best minds-including former Fed chief Paul Volcker, American Express CEO Ken Chenault, Harvard professor Rosabeth Moss Kanter, tech entrepreneur Peter Thiel. Chinese businessman Zhang Ruimin, former German Defense Minister Karl-Theodor zu Guttenberg, and Indian businessman Anand Mahindra. Their suggestions were invaluable, but the editors of Fortune accept full responsibility for the final list.



Rosabeth Moss Kanter





At one point, 40 percent of streetlights in Detroit didn't work.

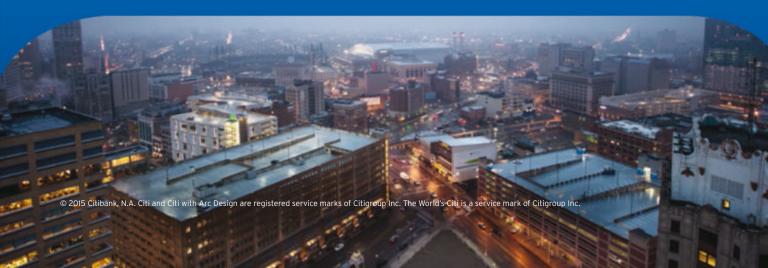
This made life even more difficult for a city that was already struggling.

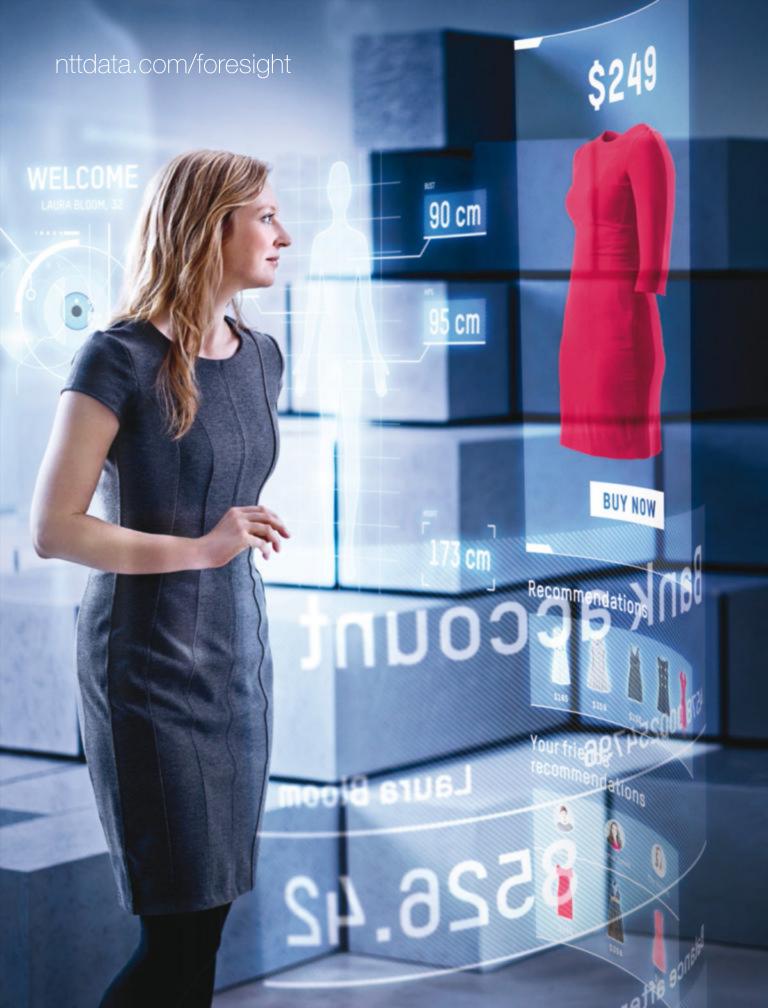
The Public Lighting Authority of Detroit devised a plan to reilluminate the city. But finding a bank to finance the project during Detroit's bankruptcy was challenging. Citi stepped up and committed its own capital, which encouraged other investors. So far, thousands of new LED lights have been installed, lighting the way as a model for similar projects around the world.

For over 200 years, Citi's job has been to believe in people and help make their ideas a reality.

citi.com/progress







Your personal shopper is about to get a lot smarter.

Shopping should be fun. You shouldn't have to wade through a million things you don't want in order to find the one you love. And you shouldn't have to worry about whether your payment information is going to wind up in some hacker's sweaty hands.

Shopping Customized to You

Have you ever felt the frustration of not finding the product you really wanted? What you need at a time like that is a personal shopping adviser. Soon, you'll have one.

In the shopping scenario of the future, sophisticated IT technology will not only have access to your purchase history, but will also be able to analyze all kinds of other related information. This technological evolution will give you recommendations such as "Your boyfriend is sure to like this dress," "It's a good match in color with something you own," and "You've spent too much today, but at this price you can still afford it." It would be as if your own personal shopping adviser were following you around, ready to consult with and recommend things you may never have considered.

Taking customization to a whole new level, there will even come a time when products won't be stocked at retailers or warehouses; they'll be created on the spot, at stores or in your own home, by 3D printers. You'll be able to choose the perfect outfit and have it in your hands in no time at all. You'll be stress-free and hands-free.

Making Payments Safer and Simpler

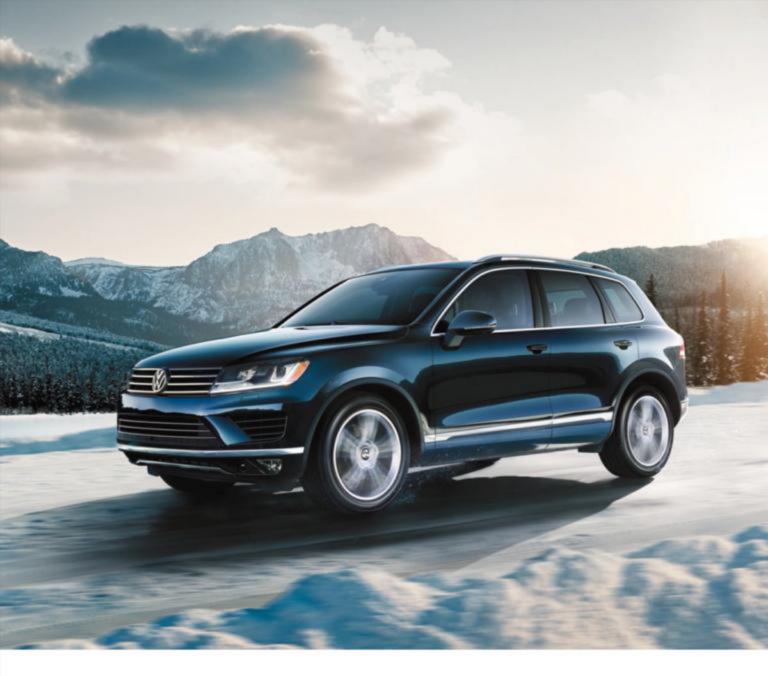
Complicated payment systems are already becoming relics of the past. Signatures, passwords, even fingerprint identification will be superseded by even more sophisticated and secure authentication systems such as biometric, voice and iris recognition – you yourself will be directly connected to your bank account – so you can get on with your shopping without giving a second thought to whether your payments are secure. Wherever you shop, you won't have to take cash or cards out of your wallet, and you won't have to worry about loss or theft.

NTT DATA, one of the world's top IT service providers, has long offered a range of innovative solutions. For example, in the field of banking systems, their credit card transaction network connects retailers, credit card companies and financial institutions all over Japan. And by improving big data analytics and authentication technology for applications such as wearable devices, NTT DATA is bringing the future of shopping to life today.

Predicting the Future

NTT DATA predicts trends in technology and publishes findings in *NTT DATA Technology Foresight*. By envisioning the future, NTT DATA offers innovative solutions to people all over the world.





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THE REPUBLICAN PRESIDENTIAL PRIMARY is already shaping up to be a sprawling free-for-all. More than a dozen potentially serious contenders and counting have already joined the scrum—popping up in early states, snagging operatives, and wooing donors. But only a handful will still be standing a year from now after the first burst of contests. Surviving will require, among other things, a little luck and a lot of money.

MACRO

JUST HOW MUCH?

The answer comes with an elephant-size asterisk, since so much of what determines the outcome is unknowable. Consider the involvement of Super PACs. Those loosely regulated outside groups rattled the GOP's 2012 primary by empowering a few billionaires to prop up the bids of moribund candidates who exhausted their own resources. They'll play an even greater role this time around, tipping the playing field unpredictably. Nevertheless, the pols angling to carry the torch for the business wing of the party (think former Gov. Jeb Bush; his protégé, Sen. Marco Rubio; and Gov. Chris Christie) must

cobble together a daunting number of four-figure checks for their official campaign organizations simply to meet the competition's de facto ante. To put some hard numbers on what it takes to get through the first four states (the only ones on the calendar so far), *Fortune* surveyed leading party strategists, fundraisers, media consultants, and the historical record. This is our field guide to the punishing, and expensive, crucible of the Republican presidential slugfest's opening round.

STARTUP COSTS

\$10 million

Before the campaign even starts, the first step of any operation is setting up a headquarters. And it's not cheap.

up a headquarters. And it's not cheap. Although campaigns run more like franchises in the preelection year, with candidates looking to shovel most of their resources out to the states hosting the first contests, they still need a physical home base, along with a nucleus of staff to formulate policy, strategy, and message. To get the whole operation started, figure \$5 million for that overhead, and another \$5 million for the campaign's other major early expenditure all the costs associated with raising the money itself.

IOWA

\$8 million to \$10 million

Iowa Republicans aren't impressed by lavish campaigns. The object here for Establishment contenders is to manage expectations, place respectably, and live to fight another day. Former Pennsylvania Sen. Rick Santorum won the state's 2012 caucuses on a hardright message and a shoestring budget, spending less than \$1 per vote on television advertising. But compare his ROI with that of Texas Gov. Rick Perry, who spent roughly \$300 per vote and finished fifth. Despite Iowa's modest media markets. campaigns will need to spend more to

Total after Iowa: \$18 million to \$20 million

be heard above the

din of the field at its

most crowded.

NEW HAMPSHIRE

\$12 million to \$15 million

Campaigning in tiny New Hampshire is surprisingly pricey. And for that, candidates can thank Boston. They'll need to buy time in the city, the seventhlargest media market in the countryits airwaves are three times as expensive as those in lowa-to reach the population centers in the southern part of the Granite State. In 2012, Mitt Romney, a part-time **New Hampshire** resident, romped in a subdued contest. But with no favorite son making the race this time, expect a livelier, costlier battle.

Total after New Hampshire: \$30 million to \$35 million

SOUTH CAROLINA

\$6 million to \$8 million

The primary calendar isn't locked in past New Hampshire, but after that, the race is likely to head south, where South Carolina will offer something of a reset. The first two contests will probably have squeezed at least one of the more centrist candidates from the race. (Former Utah Gov. Jon Huntsman dropped out in 2012 after a disappointing third-place finish in New Hampshire.) If past is prologue, others will limp in broke and looking to their Super PACs to float them.

Total after South Carolina: \$36 million to \$43 million

NEVADA

\$4 million to \$7 million

Running just one month of TV ads here costs roughly \$2 million, but Nevada's caucus draws a twentieth as many people as the South Carolina primary, so the contest favors a strong ground game. It's a moment a big dog could exploit to begin shutting the door (see: Romney 2012). It may also present an opportunity for a well-organized, underfunded contender to shine. The early strength of the field suggests nothing will be settled so soon, and we're in for a longer and pricier slog.

Total spent to get off the ground:
\$40 million to
\$50 million—
and counting

Total spent for setup: \$10 million



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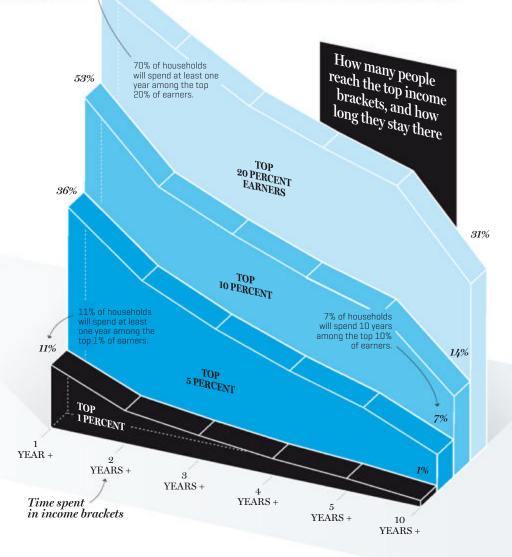
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FORAYS IN THE 1%

By definition, most of us aren't in the one percentat least not right now. But at some point one in 10 households will spend at least one year in that muchmaligned earning bracket. A recent study by sociologists Thomas Hirschl of Cornell University and Mark Rank of Washington University shows that American income distribution is remarkably fluid, with households cycling in and out of the top brackets more frequently than populist rhetoric might suggest. That statistic cuts both ways, though. More than half of Americans will experience at least one year of poverty too. -Chris Matthews



DISRUPTION

The Apple Watch Might Actually Be Good for Switzerland

Famed Apple design chief Jony Ive thinks his company's new watch will decimate the Swiss timepiece industry. But maybe not: "Everything that makes millions of people more open to putting something on their wrist" will ultimately sell more watches, says Nick Hayek, CEO of Swiss icon Swatch. A fashionable \$17,000 Apple Watch could actually be a gateway drug to, say, an elegant \$43,000 Patek Philippe. Plus, when's the last time an Apple product came with a lifetime quarantee? -Robert Hackett



70%

OUTRAGE FODDER

TAX PREP BLUES

Filing taxes costs Americans 6.1 billion miserable man-hours each year. The process is so complex that it has produced a \$10.1 billion, 320,000-employeestrong tax-preparation industry—a behemoth now fighting to stay that way. Led by H&R Block and TurboTax maker Intuit, tax companies have spent more than \$30 million on lobbying in the past five years. Some of that is aimed at squelching proposals for a simpler filing system in which the IRS would prefill tax forms by default—a program that's popular in Europe but could whack taxpreparation businesses stateside.

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BUSINESS CLASS

THE RISE OF THE JET CARD

In the private-aviation world, the card model is supplanting plane ownership. Should you join the club? *By Daniel Roberts*

JET CARDS HAVE BECOME THE newest status symbol, similar to owning an Apple Watch Edition. As plane sharing develops into a fast-growing segment of the private-aviation industry, old and new companies alike are offering memberships, apps, and flexible options to make private planes increasingly affordable for business travelers.

The concept is simple: A jet card provides access to private planes for a flat fee, usually for a set number of hours. Unlike fractional ownership, the oncepopular air travel equivalent to a timeshare, jet cards are similar to Zipcar and Spotify: You don't need to own a plane-even partially—to use it. You just won't always fly on the same aircraft. And as jet cards gain traction, shared ownership is on the decline. One example, in 2013, Bombardier sold off Flexjet as customers began turning away from shares and toward cards. Now Flexiet also offers a card system, called Flexjet 25.

The options are dizzying as more companies get into the game. The current leader in the space is Marquis Jet, which was

founded by Kenny Dichter in 2001 and sold to Berkshire Hathaway's NetJets in 2010. Marquis charges just over \$100,000 for 25 hours of flight time (far less time than is needed by a typical globetrotting CEO). Now Dichter's newest venture is Wheels Up, a more exclusive club model aimed at celebrities and athletes.

Magellan Jets, the charter operator, has created a 25-hour card and also has a "build-a-card" option. New apps like JetSmarter and BlackJet (started by an Uber co-founder) show you open seats on private planes for a single flight, à la Kayak.

Despite all the new options, some critics have expressed doubt about whether such businesses can charge so little and survive. "There are, like, 50 different ways to try to skin the cat now," says Drew Callen, president of Boston JetSearch, "and many are interesting but complicated."

The appeal of a jet card is obvious: Even if you can afford to own a plane, why buy one if you could 5,000

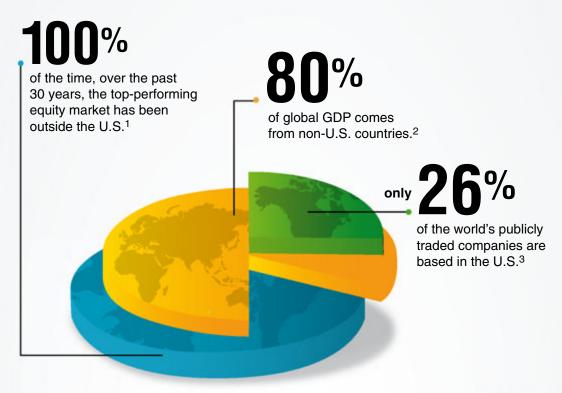
The number of airports in the U.S. that can accommodate small, private planes vs. the 500 that serve only commercial aircraft.

save money by using someone else's? The deciding question is: How many hours a year will you fly? If it's under 200, ownership doesn't make sense. The average full or fractional owner of a plane travels 400 hours a year.

For jet owners, the trend is creating new opportunities. Anyone with a plane can create a jet card program, and many are—from big, national players like NetJets to regional outfits, which are sometimes just an individual selling blocks of time on his own plane. In some cases you can now get a 10-hour card for less than \$50,000. Research firms JetNet and Argus count eight major jet card providers, from Flexjet, Marquis, and Delta PrivateJets to dozens of smaller operators.

The reason for the popularity? Jet cards target a large population of travelers who are on a budget. "I can't even see, today, why a business guy needs to own his own aircraft. For the majority, ad hoc charter is sufficient, and if they owned an airplane, it would bankrupt them," says private-aviation consultant Richard Ziskind, "I think these hybrid programs are going to become the dominant product." IB

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Source: MSCI All Country benchmark returns 1983-2013.

²Source: Gross domestic product based on purchasing-power-parity (PPP) share of world total. IMF, Haver Analytics.

³Source: FactSet as of 11/30/2013. Data presented for the MSCI AC World Index, which represents 44 countries and contains 2,436 stocks. The index is not intended to represent the entire global universe of tradable securities.

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FINANCE

Pity the Poor **Investment Banker**

Recent travails aren't post-crisis doldrums. They're the new normal. By Stephen Gandel

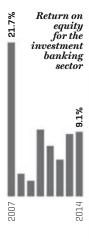
INVESTMENT BANKERS used to rule the world. Now J.P. Morgan chief Jamie Dimon has to explain to investors why the bank is even in that business anymore. (It's still a service that clients need, he said during a call in January.)

How times have changed. Over the past year the indignities mounted for banks' onetime profit centers. The leading person to succeed Dimon at J.P. Morgan, Gordon Smith, runs consumer banking. Swiss giant Credit Suisse's new CEO comes from insurance. Many large European banks are getting out of investment banking completely. And the ultimate insult: Wells Fargo and U.S. Bank, once derided for sticking to straight lending, are now more profitable than lords of finance Goldman Sachs and Morgan Stanley.

The irony is that these should be good times for Wall Street. Mergers and IPOs are back. Stock indexes are at all-time highs. Activist investors are launching hostile takeovers. And yet the Street's profit machine seems broken. The average bank has a return on equity of 8% these days, down from 18% before the financial crisis, according to RBC Capital Markets. Much of the drop has been in investment banking.

Regulation has a lot to do with that, pushing the big banks out of





Wall Street's most profitable (and riskiest) businesses. Leverage has long been key to big investmentbanking profits, but new capital rules and stress tests make it hard for the big banks to borrow. Low interest rates and never-ending lawsuits haven't helped.

Just after the crisis, bankers' malaise seemed temporary. Seven years later the famed \$20 million bonus checks have vanished, but there is no shortage of work to do, and the Street is losing faith. Rik Kopelan, a top Wall Street recruiter, says it's hard to find people who want to switch firms. The only move people want to make is out of finance. More may go the way of one senior Bank of America investment banker who recently fled his once-coveted perch: He's headed to a nonprofit. PRO TIPS

In her new book, Getting There: A Book of Mentors, Gillian Zoe Segal surveys a number of business stars for insights on how they got to the corner office. Here, some selected advice.

"Use the words 'we' and 'us' when referring to your business. Never use 'I' and 'me.' It sounds egotistical."

-Michael Bloomberg, CEO, Bloomberg LP





"The Boston Beer Co. has a simple hiring standard: Never hire someone unless they will raise the average."

—Jim Koch, founder, the Boston Beer Co.

"Think on your own and question authority. Authority is a shortlived phenomenon."

-Gary Hirshberg, cofounder, Stonyfield Farm





"Social change is better achieved by being for something than against something."

-Helene Gayle, president and CEO, CARE USA





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GLOBAL POWER PROFILE

Chevron's Cheap-Oil Playbook

How CEO John Watson is adjusting his strategy in the face of sub-\$50 crude. *By Brian O'Keefe*

IF YOU'RE RUNNING a major oil company, says Chevron CEO John Watson, 58, it is key that you "not react too much or too little" to volatility. In a recent visit to *Fortune*, he explained why he's taking a measured approach to the more than 50% plunge in oil prices in recent months. Edited excerpts:

Watson's company produced 2.6 million barrels of oil a day in 2014 and earned \$19.2 billion in profits.

How surprising has it been for you to see oil prices fall so dramatically?

I've been in my job five years, and I've been with the company 35 years. This is the fifth time in my career I've seen a 50%-plus drop in oil prices. So in that sense, it's not surprising. While it's happening, you're always a little bit surprised. When you get an imbalance in what is being produced, either too much or too little, prices can move up or down very fast.

You're cutting capital spending by \$5 billion this year. Do you have a "cheap oil" protocol?

We have a playbook of sorts in that we've been through it before. We know the levers we can pull. We'll look hard at costs. You may slow down some work. We've done that. We're a long-cycle business, so we try to keep our balance sheet in such a condition that we can weather events and keep going.

As the leader of a company with 64,700 employees, how do explain your strategy when you're in a belt-tightening period?

We've had very consistent strategies for a long period of time. So the long-term strategies don't change, but employees are watching very intently. You have to size the workforce for the work that you have. What I try to do is be candid about it. If you're straight with people, I think they accept that.

When do you see supply and demand balancing out and oil prices rising again?

Our best guess is next year. In general the discourse that you read all over the place is about the U.S. [production surge]. But I stand back and say, "It's a 93-million-barrel-a-day market." The U.S. produces 9 million barrels a day of crude. We're not the whole story. And in the U.S., a big part of the story is shale. The unique characteristic of shale is very rapid decline. You drill a well, and

12 months later that well will be producing 70% to 75% less. So you have to keep drilling. The interesting thing will be whether investment is maintained around the world and how long before production starts falling.

How close are we to transitioning away from fossil fuels in the long term?

There's a very large gap between rhetoric and reality. Those who follow the energy business in

think tanks will tell you that right now about 80% of our energy is coming from fossil fuels. And if you go out 20 years, about 80% of our energy's going to be coming from fossil fuels. If you look at the priorities around the world, the average government is trying to create prosperity for their people. And affordable energy is the backbone of that prosperity.

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ECONOMICS

THE OTHER INFLATION **MYTH**

Ukraine has a currency crisis. It's worse than it looks. By Erika Fry

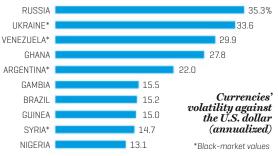
IN MARCH, Ukraine's National Bank reported the country's annual inflation rate had reached 34.5%, its highest level in more than a decade. That's a brutal number by any standard, but the reality is much, much worse.

Steve Hanke, a professor of applied economics at Johns Hopkins and director of the Cato Institute's Troubled Currencies Project, estimates the inflation rate in the post-revolution nation is actually about 133%, or four times the official number. That puts Ukraine in league with war-torn Syria and world-inflation leader Venezuela on Cato's Troubled Currencies list-countries whose citizens have lost faith in their money.

In countries with currency woes, it's typical for official inflation numbers to bear little resemblance to real inflation, or what



The World's Most Volatile Currencies



Hanke calls "implied inflation," calculated using black-market exchange rates. In Venezuela where implied annual inflation is 271%, the official number is 64%. In Syria, where the implied rate is 59%, the official rate is -3.7%. Estimates diverge because measurements tend to lag reality, official inflation is suppressed by price controls, and governments have been known to rig the data.

Hanke says there are two telltale signs of a currency in crisis: a booming black market and high volatility. Volatility has been on the rise globally (see chart) because of fluctuation in the dollar-euro rate-which Hanke calls the most important number in global economics. The rapid rise of the dollar relative to the euro has triggered selloffs of emerging- markets currencies and skewed commodity prices. Until there's greater stability there, expect more cash under mattresses.

Above, people in Ukraine stand in line to retrieve money from an ATM.

TRASH

How guilty should you feel about that K-Cup? John Sylvan, who invented the K-Cup, now says he regrets it because of the coffee pods' outsize environmental toll. He has a point: 9.8 billion cups sold last vear. That works out to roughly 140,434 tons of waste, but still a rounding error compared with our other habits. Every year the U.S. packs landfills with 34.7 million tons of food waste, 8.8 million tons of clothing, and 11.5 million tons of furniture. Every cup counts, but every sofa counts more.

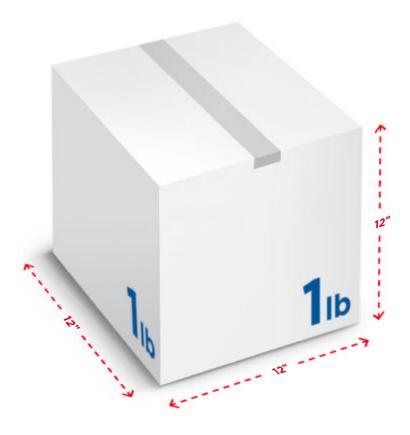


Q: HOW MUCH DOES THIS 1-POUND BOX WEIGH?

A: 11 POUNDS, IF YOU USE THE WRONG SHIPPING COMPANY.

Something is different this year: Some shipping companies are trying to box you in by expanding their use of **Dimensional (DIM) Weight Pricing**. That means you pay for your domestic package's actual weight or its dimensional weight — whichever is greater. For example, you could be billed the 11-pound rate for this 1-pound box because of its 12"x12"x12" size. That could get expensive. But you have a choice: The **USPS**® continues to offer a broad range of efficient and economical shipping options. Because we understand that one size does not fit all.

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WORLD'S MOST ADMIRED COMPANIES

Old Bank, New Tricks

USAA's focus on its far-flung military customers has made it a tech all-star. By Deena Shanker

COMPANY SNAPSHOT
Headquarters San Antonio
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Assets \$212.7 billion
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N 1922, 25 Army officers met in San Antonio and agreed to insure one another's vehicles because nobody else would. Today their company, United Services Automobile Association, or USAA, is one of the largest banks in the country by assets, as well as one of the top mortgage brokers and auto insurers.

That's all the more remarkable since just a small fraction of the population is allowed to sign up. The bank is open only to military members and their families, and it serves them with what Celent analyst Dan Latimore calls a "laser focus."

It was reaching service members stationed abroad that led USAA to be among the first to offer real mobile banking services. And its member-owned model (it paid \$1.6 billion in dividends to members last year) and devotion to its client base insulated it from the temptations that ruined many other financial services companies. The result: Since it loosened membership in 2009 to include anyone who had honorably served, membership has shot up 45%.



INNOVATION NATION

With only one full-service brick-and-mortar branch, USAA was an early leader in mobile banking, but it didn't stop there. In the past five years alone, the company has filed 493 patents. It offers facialand voice-recognition logins, customer-service videochat, and mobile insurance-claim filing. In the works: a drone program, developed with the Federal Aviation Administration, that will allow USAA to assess damages after major catastrophic events, like last summer's Colorado wildfires.

NEAR-FANATICAL CUSTOMER FOCUS

Serving service members is "baked into the core of who they are," says Forrester analyst Megan Burns. That means sending some employees to mock boot camps, more mobile options, and exploring unusual products by popular demand, like ride-sharing insurance for former military members turned Uber drivers.

96.2

Percentage of USAA banking that occurs over a computer or mobile device.

HAPPY EMPLOYEES, HAPPY CUSTOMERS

USAA is a regular on Fortune's Best Companies to Work For ranking (No. 33), as well as its Most **Admired Companies list** (No. 28). "We know that the member experience can't be any better than our employee experience is internally," says COO Carl Liebert. To wit, the company offers stressrelieving rooms, more than 20 hours a year in leadership training, and a gold-plated benefits plan. Plus, it's hiring 1,600 work-from-home employees, making staff as mobile as members. IN

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THE AGE OF CORPORATE EQUALITY

Forward-thinking companies are taking the lead in the

LGBT movement. It's paying large bottom-line dividends.



"We are proud to be recognized by the Human Rights Campaign as we continue to raise the bar on inclusion in every aspect of our business."

CATHY CAMPBELL

Managing Director for Diversity and Inclusion at Charles Schwab

WHEN THE HUMAN RIGHTS CAMPAIGN

was launched in 1980, there were no employment protections for lesbian, gay, bisexual, and transgender people at the federal or state level in the U.S. While the U.S. still lacks federal employment protections for the LGBT community, and people can still be fired based on their sexual orientation or gender identity in 32 states, an ally has emerged alongside the 1.5-million-member advocacy and lobbying organization.

Joining the HRC, the nation's largest LGBT civil rights organization, in its daily effort are companies that champion equal rights in

the workplace. Enter its HRC Corporate Equality Index (CEI) benchmark, which surveys and rates companies on 40 factors including partner health benefits, the ability to attract and retain LGBT workers, and efforts to work with LGBT-certified suppliers. In 2015, 781 of the nation's largest businesses participated in the survey.

Of these, 366 employers—including such Fortune 1,000 giants as Apple, Charles Schwab, Facebook, Johnson & Johnson, and Kellogg—earned a perfect score on the HRC's 2015 CEI, each gaining a coveted spot on the Best Places to Work for LGBT Equality list. Next year, the HRC will raise the bar: In order to receive a 100% rating, a company will need to show that it has implemented LGBT-inclusive practices overseas as well as domestically.

That's a far cry from corporate America's diversity measures just a decade ago. Then, only a handful of companies earned a score of 100% on the CEI-among them Charles Schwab, which has kept its perfect score every year since 2004. For many years Schwab has provided health coverage to its employees who have domestic partners and their eligible dependents. And benefits such as adoption assistance for all have long been the norm. Audrey Gilles, an employee in Schwab's Creative Services agency and chair of PRIDE, the employee resource group for LGBT employees, says about working at Schwab, "I had to kiss a lot of frogs to find the right one. What could be better than a professional relationship that values authenticity? I am encouraged and inspired to bring my whole self to work, and to help others do so, too."

About the company's broader values, Cathy Campbell, managing director for diversity and inclu-

sion at Schwab, says, "Our company was founded on the commitment to doing what's right for our clients and their communities. This same commitment extends to our employees."



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At Schwab, our success hinges on who we hire. So, we hire great people like Rafael. He's a seasoned marketer who's out and proud to work for a company that's been challenging the status quo on diversity for our entire 40-year history. We were one of the first taking real steps to create an inclusive workplace in a world where that wasn't always the norm. Our goal since the start: provide an environment where everyone can excel, and where diversity is not only welcomed, but celebrated. Intrigued? Learn more at aboutschwab.com/work-at-schwab.

"I'm proud to work for a company where diversity isn't just a buzzword."

 Rafael Balaguer, Senior Marketing Manager, Schwab San Francisco

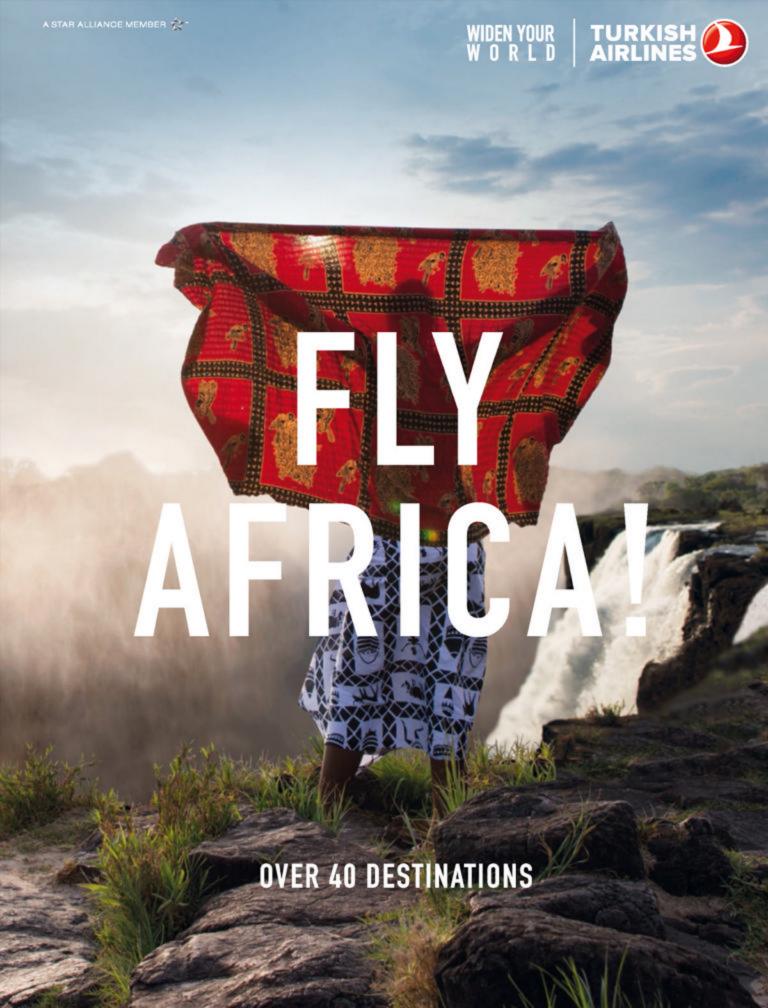


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Venture

HOW I GOT STARTED

Interview by Dinah Eng

ROMANO'S RECIPE FOR SUCCESS

How the karate-practicing son of an electrician came to create restaurant concepts that today generate \$1.5 billion in annual revenues.

> FUDDRUCKERS. Romano's Macaroni Grill. Cozymel's. These are some of the 25-plus restaurant concepts that Phil Romano, 75, has created, producing some \$1.5 billion in annual sales. (There have been some flops too, including a lobster restaurant in Dallas.) Romano, who survived malignant lymphoma, has branched into other realms. His latest is Trinity Groves, an incubator to cultivate restaurant concepts for millennials. He's also an artist whose paintings sell for up to \$26,000 in a Dallas gallery that he co-owns. Romano's story:

> I never worked in a restaurant until I owned one. I'm a first-generation Italian American from upstate New York. Till I was 12, I didn't think anyone existed except Italians and Catholics. My father was an electrician with a sixth-grade education. My mother was a housewife.

VENTURE

HOW I GOT STARTED

I was in the Army Reserves during college. I got into martial arts to keep in shape. In 1960 I was attending Florida Atlantic University in Boca Raton and had set up two karate schools that were making \$20,000 a year. One day the father of a student said he needed a partner for his restaurant business. I'm an opportunist, and I saw restaurants as the all-American dream: food, women, and booze. So I sold my karate schools and went in with him at age 24, six credit hours short of graduating, to open a restaurant in North Palm Beach.

My philosophy is if you give people more than they need, you'll make twice as much profit. My partner thought the opposite, but I didn't have enough money to buy him out. So my dad mortgaged my parents' home and gave me the money to do it. I was terrified I might lose my parents' money, and that fear of failure still motivates me today. I don't want to let people down who entrust me with their money. I took over the restaurant and ended up opening four or five more in Florida.

I had to start my own business. I don't like taking orders. I want to control my own destiny, and I think differently from anyone else. In the early '70s the economy started going down, so I liquidated my businesses and later moved to San Antonio, where I launched three fine-dining places. Then I decided to do a restaurant that would sustain itself in multiples. One of my favorite foods is the hamburger. I decided on a burger place for adults where you could see the meat being ground and smell the buns being baked. I'd charge \$3.25, the most ever for a burger at the time. I heard the name [of the fictional] Fudpucker Airlines and liked it, so I changed it and named the restaurant Fuddruckers.

My banker didn't think it would work, but I did it anyway. It was 1980, and I needed \$150,000. So I sold 10 shares at \$15,000 each to some of my customers, which made up 48% of the company. I owned the other 52%. It took off, and in 1983 I did an IPO. Each of those

Phil Romano

Founder of Fuddruckers and Romano's Macaroni Grill

INGREDIENTS FOR A SUCCESSFUL BUSINESS

Responsibility

Do the right things, and be responsible for what you don't do right.

Integrity

Honesty comes first in everything.

Communication

Tell people how you feel and make your opinions known. Ask your customers and employees what they think.

Love of God, patriotism, and charity

Make your brand stand for something.

\$15,000 investments became worth \$3.4 million. That put me on the map.

When you go public, other people want to put their stamp on things. I was naive and listened to them. The limited menu expanded. The decor changed. All those choices took away from the original concept, and in 1986 I sold my majority interest in Fuddruckers.

Back then I had a mansion outside San Antonio that looked down on a fiveacre town called Leon Springs. I wondered, If I put a good Italian restaurant there, would people come? So I bought all the commercial property in the town for \$600,000, thinking it might be a good place to test restaurant concepts, and started Romano's Macaroni Grill.

People came on weekends, but other days were slow. So I decided that one Monday or Tuesday a month everything would be free. People called constantly to ask, "Is tonight the night?" Word spread, and the place went apeshit.

I don't like running big corporations dealing with insurance companies, bankers, HR problems. I want to touch the people and be with the customers. So I called Norman Brinker [of restaurantchain owner Brinker International]. He bought the Macaroni Grill concept, and I made \$23 million. Norman wanted me to stay and run things, but I said, "I'll mess up your culture. I don't work for anyone." So in 1989 they hired me as a part-time consultant. I'd come up with a concept. They'd give me the resources and finance it, and they had the right to buy me out. I created Rudy's Country Store & Bar-B-Q, Cozymel's, eatZi's Market & Bakery, and others.

I've had my share of failures. I started Baroni's, a high-end men's clothier in Texas. But the market wasn't there, and I lost \$700,000. I opened a seafood place called Lobster Ranch in North Dallas, which closed after six months. It pinched me hard for \$600,000. But something inside me has always said to get up, dust off, and move on to the next challenge with a positive attitude.

When I turned 50, doctors found a malignant lymphoma on the side of my appendix. After that, I realized you have an expiration date on you. I became very prolific, wanting to do things immediately. That's why I got into painting. I do large colored abstracts. I wanted something to do when I'm too old to do anything else, and the art is something people will remember me by.

Now, Stuart Fitts and I have created Trinity Groves in West Dallas with other investors. It's the first restaurant incubator in the country, designed to create concepts for millennials; 15 working concepts are open now.

I like to help other people become successful. After I sold Fuddruckers, I met two doctors who had invented the Palmaz-Schatz coronary stent. I put \$250,000 in, and it sold to Johnson & Johnson. It's made \$600 million for the three of us. Years later I ended up getting two of those stents in my own heart.

The first phase of my life was about making money. The second was doing things for social recognition. Now all I want to do are things that make a difference for others. I want to know I made a difference with my life.



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April 1, 2015

VERNE HARNISH

5 WAYS TO STRENGTHEN YOUR CORE

Your company needs to develop strong, capable management if it wants to grow. Here's how to do that. By Verne Harnish



Draft Your Senior Team

Insist that your top leaders get actively involved in developing middle managersand not just delegate the job to others. At Kemp Technologies, a Manhattan-based firm with \$30 million in revenue in 2014, each of the six members of the executive team mentors a few up-and-coming managers for one hour a month. Cultivating this talent pipeline keeps Kemp attractive to potential acquirers. "What they tend to look at is the second layer of leadership," says CEO Ray Downes.



Cross-Train

Hold vour intermediate executives accountable for resolving all complaints from customers and addressing comments in the employee suggestion box. Ask them to untangle the problems on their own and come to you only if they are stuck. Not only is this an effective way to get them working cross-functionally, but it will also relieve pressure on the senior team. You will be shocked by how many teachable moments the process creates.



Increase Flexibility

The most important role for midlevel execs is coaching their groups. To excel at that, they need to learn to vary their style depending on the person or team—and the opportunity or challenge they face. Use Ken Blanchard and Paul Hersey's situational-leadership theory to teach them the ropes. Only when they know when to teach or lead—or do neither will they get peak performance from frontline employees and be ready to move up.



Invest Early

Cultivate up-and-coming employees using all these techniques long before you need them as leaders so that you'll be ready to pounce on new opportunities. At Kemp, executives have identified about 20 high-potential employees on their 175-person staff. Kemp gives them special assignments that will help them grow. It also invests \$500,000 annually in education and training. With the company in a high-growth phase, "it's key for us to be able to focus on that deeper bench of leadership," says Downes.

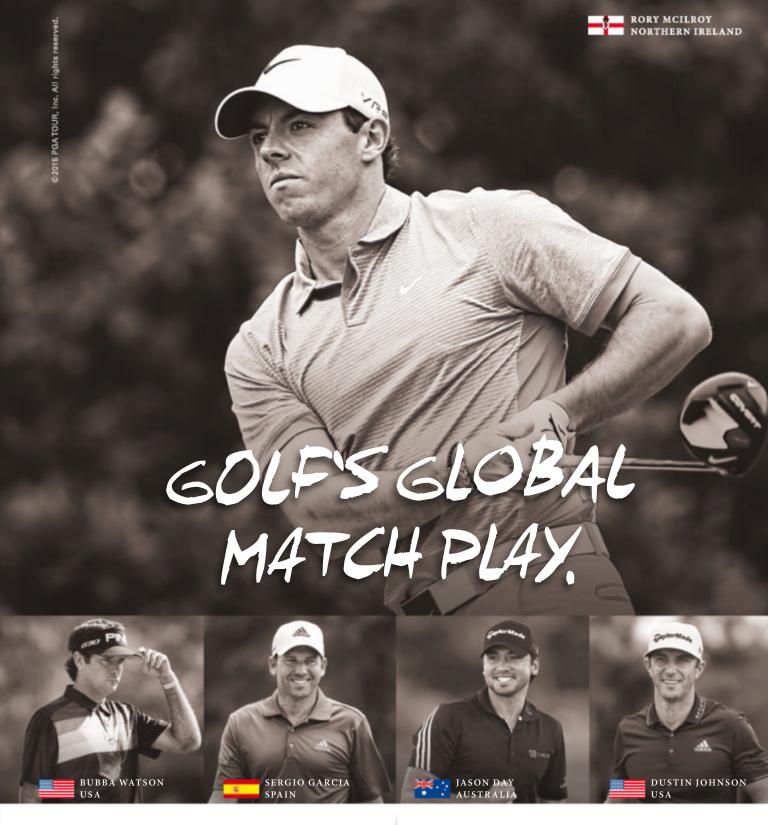


Keep Them in the Ring

To climb the ranks, middle managers need to learn how to discuss difficult issues productively with their colleagues instead of relying on their bosses to referee. Datacolor, a provider of software, instruments, and services to ensure accurate colors in materials, products, and images, encourages this through its written "rules of engagement." It asks employees to talk things out in person or by phone—not email—and to assume that their colleagues harbor no ill will. "Ninety percent of issues raised to me in the past no longer come to me," says Albert Busch, CEO.

VERNE HARNISH IS THE CEO OF GAZELLES INC., AN EXECUTIVE EDUCATION FIRM,





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Tony McGee never took the straight route. When he retired after 11 NFL seasons in 2004, he planned to spend his time on standard wealthy-athlete endeavors: a sports radio program in Orlando, a gig with ESPN's *Cold Pizza* talk show, stakes in a restaurant and sports complex. But a few detours later, he came to realize he needed to focus on a single task. "When you have all this stuff going on, you can't concentrate on any one thing," says McGee, still fit at 43, over chicken tacos at a lakeside Orlando restaurant. "I was the quintessential jack-of-all, master of none."

Today McGee runs an unusual enterprise for a retired jock: He's the founder and CEO of four-year-old HNM Global Logistics, a freight forwarder that arranges import/export, warehousing, and distribution for corporate clients that need to move goods.

It wasn't the first unexpected destination for McGee, a man who has confidently grabbed opportunities even when they weren't the ones he had planned for. Growing up in Terre Haute, Ind., McGee played basketball. He excelled enough to attract scholarship offers from Indiana University,

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among others. But he was a power forward whose six-four height made him more likely to play guard in college; McGee knew his football prospects were better. He accepted a scholarship from the University of Michigan, where he played tight end and studied communications. For his first three seasons, however, McGee spent most fall Saturdays as just another spectator. He took internships in marketing and sports information, imagining he'd take a regular job upon graduating. "When you have three catches going into your senior year," he says, "you're not trying to sign an agent."

Then plans changed. As a senior, McGee was second on the team with 38 receptions and six touchdowns, including two in a Rose Bowl win. The Cincinnati Bengals drafted him, and he became their starting tight end for nine seasons. The Bengals' constant struggles forged an inward focus. "There are so many things surrounding the team that you can't control," he says. "You had to say, 'As an individual, how am I playing?'"

Cut by the Bengals after a knee injury in 2001, McGee spent a season in Dallas before the arrival of future All-Pro Jason Witten made him expendable. The Giants called a few months later when their starter got hurt, offering McGee one last slot and a major shift in perspective. "I remember [in Cincinnati] we would look at the veteran that comes in halfway through the year and be like, 'Man, I never want that to be us," he says. "Then that's you." As the season wound down, he knew he was done.

There were some restless mornings, times when McGee would wake up and work out and then not know what to do with himself. "The hardest thing is to find a process and a structure," he says. "In the NFL your scheduleeverything-is done for you. All you do is show up ready to play. Everything's lined up. So when you finish [with football, you've got to figure out how to balance your time, how to manage, how to allocate certain times to certain tasks. It took a long time to ... find the focus."

His daily sports talk show on a local ESPN Radio affiliate proved a grind: "You do a radio show in Orlando in June when the draft is over, NBA playoffs are over. That third hour was a struggle." But McGee soon discovered easy money in the booming real estate market, flipping a half-dozen houses for \$1 million in profit. At that point, McGee says, the plan was, "I'm just doing this forever."

That fantasy collapsed along with the subprime mortgage industry. So McGee launched a roofing-supply company with a partner, who suggested McGee attend a meeting about FF&E to drum up business. Without even knowing what the acronym stood for (furniture, fixtures, and equipment), McGee charmed and wangled his way onto a team that successfully bid to outfit the suites at Orlando's Amway Arena. More contracts followed.

Then one night at dinner an acquaintance mentioned she had granted a \$93 million contract to a

"I just figured it out," McGee says of entering a new field. "It's just, I've got to get this done."

McGee making a catch in his playing days



logistics company. McGee's ears perked up. "What's that?" he asked. Within months he was launching a business in a field he had previously not even heard of. "I just figured it out," McGee says. "You get on the phone, start calling, networking, tapping your resources ... You don't think why or how. It's just, I've got to get this done."

Inspired, he earned the necessary certifications from U.S. Customs and Border Protection and the Transportation Security Administration, working the phones to learn the market, and prepaying for credit with Florida freight carriers. In 2011 he landed his first contract, providing U.S. Immigration and Customs Enforcement the means to move seized contraband. "He's got a charismatic personality that lends itself to the industry," says John Jordan, owner of Total Logistic Services and a mentor to McGee. "And he's not afraid."

HNM—the name is a dual reference to his old real estate venture, "home notes and mortgages," and the initials of his daughter, Hannah Nicole—now generates eight figures in annual revenue, he says, and 25% gross profit margins. McGee has 25 employees, and clients range from fireworks retailers to cruise lines to German motorcycle tours. And McGee is expanding: He has launched a second company, HNM Express, that provides trucks and freight moving, and he's in negotiations to open a group of Dunkin' Donuts franchises back in Indiana. (Key to his research: daily taste tests at Orlando locations.)

McGee remains as active as he is ambitious, rising daily before five to hit the gym. The toll of his NFL career is, at least for now, negligible compared with many of his peers': pronounced thumb joints, ankle inflammation, an inability to ride roller coasters without becoming disoriented. He sees his successful present as directly tied to his past, not only in the discipline it instilled but in the financial security he needed to enable the years he spent figuring it out. In his case, the winding route left him open to catch what came his way.

With the rise of cloud computing and business apps for tablets and smartphones, you no longer need to lug a laptop everywhere to run your business from the road. These key apps and services will help you keep your business moving while you are too.

By Jennifer Alsever

Meetings and Conference Calls

Hold virtual meetings from afar using the free app Join.me. It combines voice conferencing with screen sharing, allowing people to present and share files with one another from any device. Prefer seeing people's faces?

Appear.in, also free,

lets up to eight people join a video-chat from a desktop computer, mobile phone, or tablet. Set up a virtual room in advance, and anyone can join by clicking on a link. It's not necessary to even register.

Project Management

Multiple services aim to help you keep projects and teams on task when you're away from the office. Trello is free and ideal for managing freelancers or organizing web content or a sales pipeline. It creates virtual whiteboards so you can see a team's proqress on a to-do list. Need more? Intellinote, which costs \$10 to \$20 per user per month, lets you do things like store documents, files, emails, and reports; track due dates; monitor progress; and fill out forms and sign them electronically. For \$29 to \$49 per user each month, LiquidPlanner can assist you in organizing hundreds of projects; it even calculates when you're likely to complete your work, based on availability, vacations, and other tasks. You can manage team communication and time sheets too.

For product-design teams, a free app called Grabcad will keep, update, and share the latest version of a CAD project no matter where team members are. People can make annotations to those drawings using Skitch, also free. Slava Menn, CEO of Fortified Bike, uses both apps often to manage production of his Boston company's bicycle products for urban commuters. "Instead of waiting for feedback from me for three to four days," he says, "they can get it in three to four hours."



Cloud software services make it easier to stay on top of finances via smartphone.

Xero, which costs \$19 to \$70 a month, lets you link to your bank account, send invoices remotely, track cash flow, record assets, and check a loan balance. Xero works with 350 other apps, including those for handling inventory, job tracking, and point of sale.

For \$20 to \$40 a month, rival FreshBooks focuses more on billing, letting you invoice from your phone, as well as track time, log expenses, and collaborate on projects. You can also log and approve expenses using Concur and integrate those transactions to QuickBooks for \$8 per user per month.

Staying in Touch

Some entrepreneurs find that it's easier to set a standard app for companywide chats than to try to find people by phone, email, or text. Menn of Fortified Bike pays \$2 per user each

month for his seven employees and contractors to connect on HipChat, an app that allows them to chat no matter where they might be. (HipChat also has a free version.) There's also Slack, which lets you hold group conversations, search messages and conversations, and share and access files from a dozen apps, including Google Docs, Twitter, and Dropbox. There's a free version or, for \$12.50 per user per month, you can upgrade for more security and archiving.



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efficient engine: It operates longer at lower RPMs, and the unique clutch
technology results in smoother shifts and a smoother ride. Acceleration is
also improved-0 to 30 takes 3.7 seconds.

CURB APPEAL

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Tech

MONOLOGUE

By Andrew Nusca

The PayPal co-founder explains why his new company, AFFÍRM, is a bank for the Digital Age—no compound interest necessary.

TAKING ON THE INCUMBENTS

I'M CHASING AMERICAN EXPRESS as an aspirational brand. I don't think it can speak to millennials and say, "Trust us. We're looking after your financial interest." I don't think its prestige works for the young. There's an opportunity to create an equivalent brand-but "prestige" isn't the right term. They care about transparency, usability.

ON WHY HE STARTED

AS PEOPLE graduate from college, they may have to put a deposit down on an apartment. They'll need a car or a real bed. These are all credit decisions. People ages 18 to 34 are predisposed to hate banks. They want financing, but hate paying interest—hate the idea of being stuck in debt. But they're willing to pay a fee upfront to split a payment over several months. We can underwrite people that the system sees as terrible risks with better clarity.

ON PAYPAL'S UNFINISHED BUSINESS

AT PAYPAL, THE PLAN Was to build "the new world currency." We never got there. Payment innovations always start with a lofty view of digital money but dead-end at "the rails"— issuing banks, acquiring banks, etc. Affirm is an attempt to build a bank the way it should be done in the 21st century.

ON HIS RETURN TO FIN TECH

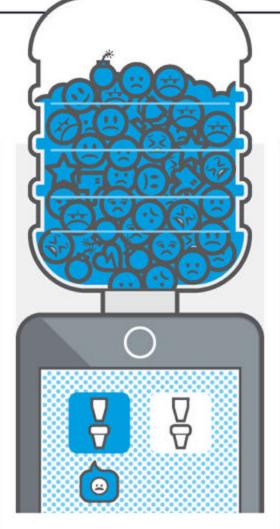
BUILDING FINANCIAL TECHNOLOGY IS HARD. Really hard. Startups are always hard, but fin tech is a whole different level of self-inflicted pain. You'll be regulated. You'll deal with big banks. They'll see you as little and cute until you're meaningful. Once that happens, they'll want to crush you out of existence.

THE FUTURE OF WORK

F CORPORATIONS have learned anything in the era of social media, it's that they can't stop workers from tweeting, Facebooking, and Instagramming about their jobs. The web has even carved out special places for employees to trade office gossip without repercussions. At Glassdoor, a repository of anonymous company reviews and salary data, more than 27 million people have contributed information about their employers. Meanwhile, anonymous apps like Whisper and Secret, which surged in popularity last year, circulate juicy rumors about various startups, deals, and executives.

Naturally, that can be perilous for a corporation. Federal labor law protects employees' rights to talk about things like wages, hours, and terms and conditions of employment, making it illegal for companies to interfere. When a damaging rant ricochets around the web, they can only react and respond.

A new service aims to capture the thrill of anonymous office gossip and harness it into some-



SNITCHES' BREW

Whinge, whine, complain, kvetch—MEMO gives workers an anonymous digital forum to gossip and vent in. The catch? Management gets to read and respond. By Erin Griffith

thing productive. Memo, which launched in January, has already accumulated 10,000 signups from employees of about 1,000 companies, including Amazon, Deloitte, and Delta. On Memo users post about work-from-home policies and doomed projects. A recent post from a PepsiCo employee called out the company's planning (poor), work ethic (skewed), and management (oppressive). Another poster bemoaned an acquisition: "I loved my company until it was bought out by Honeywell. The only thing I like about Honeywell is my cubicle and a paycheck."

Memo's goal, according to CEO Ryan Janssen, is to surface all manner of vital information about a company, be it rumors, compensation trends, or problems with a strategy. It's the sort of information everyone except management knows, because everyone is afraid of confronting his superiors. "The problem with companies isn't that they don't think the truth can help them," Janssen says. "It's that they don't know the truth and aren't acting on it."













In the second quarter, Memo will begin selling advanced tools that allow companies to collect data on employee sentiment, moderate comments, and engage with workers on the app. It's a big ask—employers surely aren't amused by what they're reading. But Janssen insists that this sort of radical transparency is inevitable and that smart companies will get ahead of it. "You can either become a transparent company peaceably, or your employees can open it up for you," he says.

It wasn't always this way. When Glassdoor launched in 2008, employers reacted with uncertainty and discomfort, according to CEO Robert Hohman. That has changed. "We live in a much more transparent world. Most employers recognize that public review of their company's culture is the new normal," he says. "You can't put the genie back in the bottle." The company, which is expected to IPO this year, minimizes wanton aggression by verifying the identities of users and asking them to leave pros along with their cons. The result? Most reviews are favorable. The

average CEO approval rating is 67%; the average company rating is 3.2 out of 5.

Several forward-thinking companies already use internal tools for feedback. Squarespace, a New York web-development startup with more than 400 employees, collects anonymous feedback using Google's survey tool. Kris Passet, Squarespace's people relations lead, worries that the negativity on an app like Memo may not be productive. "There aren't many proposed solutions, so it's just a vacuum for venting basically," she says. "That's not very helpful."

Ryan Smith, CEO of business survey provider Qualtrics, says his company's internal feedback tool, which is not anonymous, surfaces problems just fine. "Anything that's said [on Memo] is not going to be a shocker because we're open with ourselves," he says. That's less likely at the large corporations where Memo has gained the most traction. Says Smith: "The old-school companies who have never addressed the feelings in their relationship—they're going to struggle with that." 🔞



THEAGE **BILLION-OF UNICORNS DOLLAR BABIES**

Since publishing our February 2015 cover story on tech industry "unicorns"private companies valued at \$1 billion or more by venture capitalists—their creation has only accelerated. Here's a look at three new entrants. —Dan Primack

FARFETCH

This London-based online marketplace helps independent fashion boutiques sell luxury wares. One key to the company's potential? Founder and CEO José Neves isn't just some coder who settled on fashion as the best market for his technology he's spent nearly two decades as an industry operator.

NEXTDOOR

This private social network gives neighbors a place to gab and trade tips. CEO Nirav Tolia has designs on capturing a piece of the multibillion-dollar local advertising market. With more than 53,000 neighborhoods to date, he's well on his way.

SIMPLIVITY

IT infrastructure should be much simpler to deploy, says Simplivity. The Massachusetts company's "hyperconverged" hardware promises faster, cheaper, and easier-than-EMC results. More than \$275 million in funding will certainly help.

HOWTO CUMPLAIN: A PRIMER



Too emotional to think clearly? Don't try to. Take a breath, a walk, or a break until you're grounded.

The best person to complain to is usually the offending party. Awkward? Yes. But it's the fast track to a fix.

CHANGE

Raise red flags only when you have solutions. Instead of losing rapport, you'll gain respect. -Scott Olster



HEALTH CARE DOMO ARIGATO. DR. ROBÓTO

Machines have long displaced humans in the workforce, but their latest profession is surprisingly empathetic: caregiving. Facing an aging population crisis, Japan is offering to cover more than half the R&D costs for two dozen companies, including Toyota, to build health care helpmates. Its government expects the market for elder-care automata to be worth more than \$3 billion by 2035. —Robert Hackett

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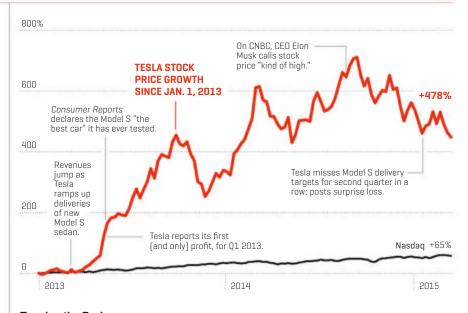
By Jen Wieczner

YOU KNOW A COMPANY'S STOCK is floating toward bubble territory when even its biggest shareholder implies that it's overvalued. Last September, as shares of electric-car company Tesla Motors were peaking at \$286, Tesla CEO and cofounder Elon Musk told CNBC that "people sometimes get carried away with our stock... Our stock price is kind of high right now." Since then the markets have made Musk both prophetic and considerably poorer: Tesla's stock is down by about a third, hurt by delays in the launch of its Model X SUV and by the fast-falling price of oil, which has raised doubts about demand for electric vehicles.

Even after this steep slide, Tesla recently traded at a lofty 232 times expected 2015 earnings, making it 11 times as expensive as the average Nasdaq stock. Yet that stratospheric price looks, to some investing pros, like a screaming buy, and many have taken advantage of the recent tumble to increase their stakes. Their passion for the company explains why Tesla's stock has been so good at defying gravity, even as it seemingly defies market fundamentals.

Since the beginning of 2013, when sales of Tesla's Model S sedan took off and the company turned its first (and so far only) quarterly profit, its stock has returned almost 480%. Tesla has wowed investors by delivering an electric sedan that feels more like a luxury Internet-enabled Batmobile for the Silicon Valley elite than a treehugger's ride. It has won top accolades for both safety and performance, while wooing gearheads with features such as the ultrafast acceleration dubbed "insane mode."

But the stock's streak has also made Tesla the poster child for bearish speculation about tech-sector excess. Consider that the company, which has never posted an annual profit, has built a \$25 billion market cap—nearly half the value of General Motors, a company that typically sells more cars in a week than Tesla does in a year. Tesla, meanwhile, has missed its car delivery targets for two quarters in a row, while further denting its earnings with big capital expenditures on its battery "gigafactory" and network of charging stations. Fuller & Thaler Asset Management recently slashed its stake in Tesla by nearly 80%, concluding that the stock's "overhyped" public image



Tapping the Brakes Investors who bought Tesla as its much-anticipated Model S hit the road have been handsomely rewarded, and some bulls see the company's recent woes as the next great buying opportunity.

would be a "perpetual drag" on performance, according to portfolio manager Raife Giovinazzo.

Tesla recently traded close to a 52-week low, and short interest has risen to 27% of floating shares (the average for Nasdaq stocks is about 5%). By some measures, the stock's valuation actually grew during the slide, because earnings estimates fell even further than the share price. But some investorsincluding managers at institutions such as Fidelity and Prudential—have interpreted the bearishness as a contrarian buying signal, arguing that Tesla is poised to surpass Wall Street's low expectations. "If you buy the stock here, you're going to benefit when sentiment inevitably turns," says Josh Spencer, manager of the \$1.7 billion T. Rowe Price Global Technology Fund, which recently bought more Tesla.

Tesla bulls aren't betting on sentiment alone. Morgan Stanley auto analyst Adam Jonas says Tesla's early success and tech prowess have persuaded other car manufacturers to view it as a disruptive competitor. When he makes presentations to other automakers, the execs "only want to talk about" Tesla, Jonas says. "This is

a very arrogant industry, [but] they're still willing to admit that Tesla makes a damn good car."

Given Tesla's luxury pricing—the average out-the-door price is above \$100,000—bulls aren't worried that lower oil prices will reduce demand: For an automotive aristocrat, fuel savings from a battery-powered vehicle are just icing on the cake. Tesla already has 20,000 pre-orders for the Model X: That kind of popularity could enable Tesla to "gush cash" in the future, Spencer says.

Of course, as skeptics and bulls agree, Tesla's current share prices make sense only if the company eventually sells many, many more cars than it does now. (The company says it expects to deliver 55,000 in 2015.) Hedge fund manager and noted short-seller Whitney Tilson of Kase Capital Management bet against Tesla in 2012 (when it traded just over \$30) and came to rue it. Today he tells Fortune that Tesla has "executed superbly to create a revolutionary product," and says he'd even be willing to buy the stock—but only at a tiny fraction of its current valuation. In the meantime, he's put down a \$5,000 deposit for a Model X, "which looks amazing."



Molly Solomon

Executive Producer, Golf Channel

A 10-TIME EMMY AWARD WINNER and former longtime NBC Olympics producer, Molly Solomon now oversees production and programming on Golf Channel-the first woman to become executive producer for a national sports network. Her responsibilities include overseeing all tournament coverage, original productions, news and operations. Solomon also serves on the advisory council for the KPMG Women's Leadership Summit, which will take place at the KPMG Women's PGA Championship in June and will connect accomplished executives like Solomon with the coming generation of women leaders. -Interview with Evan Rothman

How did you get involved in golf? In 1993, I was assigned to be the production associate on NBC Golf, which means you do all the stats and graphics. I didn't know what par was at the time. But I love sports, and whatever I get assigned I throw myself into. A mentor of mine, Jon Miller, took me aside after the second week and said, "If you're going to work on this tour, you need to play golf." He set me up with an instructor for five days of intense introductory lessons. I just fell in love.

What has the game taught you that's been helpful to your work life? Being humbled, there's something to that. The fact that I can't conquer golf makes me that much more of an avid player. I want to go back and try harder. It's the same lesson that your parents teach you about hard work. Golf reminds me that the harder you work, the better you become.

You're around golf as much as anyone. What makes it such a useful business tool? What golf provides you is a common language with the men and women you work with. There are only so many kid stories you can tell, but there are countless golf stories and endless golf experiences. New equipment, the courses you've played-to me, and to most golfers, it's endlessly fascinating. It provides that common language with your colleagues or bosses and helps you create a relationship, a bond.

That time together is hard to replicate—and often illuminating, right? Absolutely. When else nowadays do you get to spend four or five solid hours with someone? You don't get to know your colleagues that well until you team up with them or play against them! There's no better way to get to know someone than spending quality time on the golf

> course. It may not be one specific thing that you learn, but you create a relationship. The game is really important and useful for business.

How did you get involved with the KPMG Women's Leadership Summit? Why was it important to you? I've been working closely with them as we're creating [coverage of] the championship. I've told them my story about having a really strong mentor and sponsor at NBC. We want to have an impact on the next generation of female leaders. It's vitally important. With the summit, we're not only talking to women in positions of power; we also want to empower younger women who are advancing in their ca-

reers, because there just aren't enough

women in leadership roles.









Time to Dial Up Some Telecom

STOCKS OF PHONE AND DATA SERVICE PROVIDERS ARE ON SALE EVEN AS THE COMPANIES PUMP OUT CASH. By Janice Revell

Telecom stocks haven't been getting much love lately. In March, for instance, AT&T was dumped from the Dow Jones industrial average in favor of Apple. And returns for the sector have lagged: The S&P 500 telecommunications services index returned 9% over the 12 months through mid-March, vs. a 14% gain for the broader S&P 500. Much of the blame for that lackluster performance can be attributed to the fear of rising interest rates, which has caused higher-yielding, defensive sectors to fall out of favor. But many observers say the rate fear is largely priced into telecom stocks, leaving investors with an attractive buying opportunity.

It's not as if telecom companies are struggling. Operating earnings per share for the telecom sector are forecast to grow by 5% in 2015, well in excess of the 1.3% rate projected for the overall S&P 500. The group's 4.9% dividend yield far outstrips the 2% yield for the broader S&P 500. And S&P telecom stocks are cheaper—at 14.2 times 2015 earnings, vs. 17.7 for the broader index.

Telecom stocks also offer an effective hedge against the surging U.S. dollar. Almost half the revenues generated by companies in the S&P 500 come from



overseas; a rising greenback will cause those sales to be worth less when converted back to U.S. dollars. But Goldman chief U.S. equity strategist David Kostin, who has an overweight rating on telecom, points out that U.S. telcos derive the vast majority of their revenues domestically—in dollars.

AT&T, for example, is the largest wireline services provider in the U.S. and the second-largest wireless carrier. The company has recently improved margins even while investing heavily in building up its network. Oppenheimer analyst Timothy Horan, who has an outperform rating on the stock, says AT&T "has the strongest balance sheet in the industry." It also pays a hefty 5.6% dividend yield.

The country's fourthlargest wireless carrier, T-Mobile U.S., has been driving subscriber growth by branding itself as an "uncarrier" willing to change the rules of the wireless market (such as relaxing data limits and removing annual service contracts). In its most recent quarter, T-Mobile added 1 million "postpaid" (the most profitable) customers, the largest gain in the industry. Citigroup analyst Michael Rollins has a buy rating on T-Mobile and thinks the shares could appreciate by 20% in the coming 12 months.

The ongoing proliferation of mobile devices also bodes well for **SBA Communications**, which owns and operates wireless communications towers and leases

them to wireless providers like AT&T and Verizon. The company's margins are at record highs. Jefferies analyst Mike McCormack, who has a buy rating on SBA stock, believes the combination of "attractive growth, conservative guidance, and likely share repurchases" could propel the shares upward by 15% over the coming year.

For broader exposure, investors can dial into telecom with the **Vanguard Telecommunication Services ETF,** which tracks an index of 28 companies, levies a reasonable 0.12% expense ratio, and currently offers a dividend yield of 2.5%.

A former compensation consultant, Janice Revell has been writing about personal finance since 2000.



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AN ICON JUST GOT LARGER



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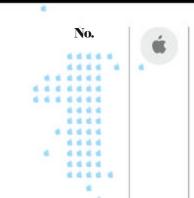
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Becoming Tim Cook

By Adam Lashinsky

Since replacing his legendary predecessor, the Apple CEO has led the technology behemoth to even greater financial success. Along the way he's changed the culture of the company—boldly pushing it in directions Steve Jobs never would have—and found his public voice as a leader.

Photographs by Joe Pugliese

Cook walking into an Apple Store in Palo Alto on March 17, 2015. Being in charge of the world's most high-profile company has tested him. "The intensity was more than I would ever have expected," he says.



TIM COOK ASSUMED HE WAS READY FOR

the harsh glare that shines on Apple's CEO. He had, after all, filled in for Jobs three times during the Apple founder's medical leaves of absence. Cook ultimately became the company's chief executive six weeks before Jobs died, in October 2011.

What Cook found out instead is that there is no preparation for the scrutiny that comes with succeeding a legend. "I have thick skin," he says, "but it got thicker. What I learned after Steve passed away, what I had known only at a theoretical level, an academic level maybe, was that he was an incredible heat shield for us, his executive team. None of us probably appreciated that enough because it's not something we were fixated on. We were fixated on our products and running the business. But he really took any kind of spears that were thrown. He took the praise as well. But to be honest, the intensity was more than I would ever have expected."

Cook's reflection on his trial by fire comes at an otherwise triumphant moment. On this sunny Sunday in March, he is taking a breather from rehearsals for the event the next day in which he will reveal details of the Apple Watch, the first all-new device of his tenure as CEO. Sitting under a canopy at an outdoor café in San Francisco, steps from the auditorium where Apple will put on the product-reveal spectacle, Cook, 54, nibbles on snacks as he reflects on the 31/2 years that he has run Apple. He's heard the repeated refrains that "Apple can't innovate under Tim," that the company needed a low-cost iPhone to thwart the progress of Google's Android, that Cook never could replicate the Jobs magic—and therefore that Apple never again would be "insanely great."

Cook taught himself, he says, to block out the noise. "I thought I was reasonable at that before, but I've had to become great at it. You pick up certain skills when the truck is running across your back. Maybe this will be something great that I'll use in other aspects of my life over time."

Already there is tangible evidence that the tread marks left no permanent scars. No one will be able to say for quite a while whether the Apple Watch or new services like Apple Pay or the \$3 billion acquisition of headphone maker and music service Beats last year will prove financially successful. What can be said is that each in its own way constitutes proof that Apple is moving forward under its first nonfounder CEO since Gil Amelio got the ax in 1997. What's more, those moves and others speak volumes about Cook's leadership, at least measured against the widespread assumption that he would simply mind the company Jobs left in his custody.

In fact, there's little debate that the state of Apple under Cook is fundamentally sound. Its stock has soared from a split-adjusted \$54 to a recent \$126 since Jobs died, translating into a market capitalization well north of \$700 billion, the first company to cross that level. Indeed, its market value is more than double that of either Exxon Mobil or Microsoft. At the same time, Apple's cash hoard has tripled since 2010, to more than \$150 billion. (That's despite the fact that Apple has spent a total of \$92.6 billion in dividends and buybacks under Cook, all the more noteworthy because Jobs frowned on distributing cash to shareholders.) Apple has defended its high-end turf in smartphones, especially in China, where it sold \$38 billion of merchandise overall in 2014. Cook has handled the occasional product snafu—Apple Maps comes to mind—with candor and humility. As well, he largely has held together the long-tenured management team he inherited from Jobs, augmenting it with a few key players and owning up to the occasional hiring blunder.

Remarkably, Cook has come into his own as a highprofile leader of Apple, not merely tolerating the spotlight but leaning into it to focus attention on issues of importance to him and his company. His decision last October to announce publicly that he is gay instantly made the onetime low-profile and exceedingly private executive a global role model. It also made him the only openly gay CEO in the *Fortune* 500. And Cook has used the pulpit provided him by Apple's worldwide platform to opine on subjects as diverse as human rights, access to education, female representation on Wall Street, immigration reform, and privacy rights. He even ventured into the heart of the Deep South, to the capital of his home state of Alabama, to lament the sorry state of racial equality there.

Cook has differentiated himself from Jobs in myriad ways, and not merely with his willingness to speak out on societal issues. Cook, who joined Apple from Compaq Computer in 1998, came from an operations background and had spent the formative years of his career at IBM. At Apple that means he's not what company executives like to call a "subject-matter expert" on such critical areas as product development, design, and marketing. Consequently he behaves much more like a coach who trusts his players than the manipulative mastermind Jobs was.

The result has been a level of stability in the senior management ranks few expected. "He never tried to be Steve," says Eddy Cue, senior vice president for Internet software and services, who joined Apple in 1989. "He tried to always be himself. He has been very good at letting us do our thing. He's aware and involved at the high end, and he gets involved as needed. Steve got involved at the pixel level."

There is no model, of course, for following someone like Jobs, a founder-entrepreneur widely regarded for a ruthless impulsiveness that repeatedly resulted in greatness. What's more, three-plus years of steady success is no guarantee for the future. Says Michael Useem, the prominent Wharton management professor and director of the school's Center for Leadership and Change Management: "In my own small world the question of whether Cook can sustain Apple's momentum comes up more often than just about any other question on top management these days."

For his part, Cook says he has grasped that more important than answering his critics is learning to ignore them. "I'm not running for office," he says. "I don't need your vote. I have to feel myself doing what's

The Apple Watch With the iPhone 6 (below) is the first and 6 Plus, Cook reversed a Jobs prefall-new device intro-WORLD'S duced by the erence for smaller company during phones, and Apple Cook's tenure so far. has cashed in big. **GREATEST** A self-described fit-The company will LEADERS ness nut, Cook wears reportedly introduce the entry-level Sport a new streaming TV version and counts service later this his steps. The watch year. will be sold in a range of prices, from \$350 to as much as \$17,000.

right. If I'm the arbiter of that instead of letting the guy on TV be that or someone who doesn't know me at all, then I think that's a much better way to live."

Cook's defiant, confident tone reflects the CEO he has become. No one guards Apple's distinct corporate culture—a culture designed by Jobs—more fiercely than Cook. Yet he also is gradually tweaking Apple at its edges, leading the company where he wants to take it, adding his unique perspective, and subtly but clearly redefining Apple in his image. It isn't clear if Jobs would have approved or disapproved. But the enigmatic founder himself, in his dying days, told Cook that he shouldn't obsess over trying to channel Jobs when making decisions. Given that, the question of what Jobs would have thought of where Cook is leading the company is, in the end, beside the point.

COURTESY OF APPLE

Tim's **Leadership Team**

Five key Apple executives that Cook leans on.

Moments of Truth RICHARD TEDLOW

taught the history of business at Harvard for 31 years. He developed an expertise on the technology industry, penning books about the Watson family's turbulent stewardship of IBM and a biography of the mercurial CEO of Intel, Andy

Grove. Today Tedlow teaches at Apple University, the in-house education unit Jobs established before his death. Apple University isn't a typical managementtraining arm, and Tedlow calls it the "Think Different corporate university," a nod to the famous advertising campaign Jobs orchestrated in the late 1990s. Its goal is to document for its employees Apple's peculiar ways as well as to ensure that the company's people consider non-Apple perspectives that will help them think critically and remain open to new ideas.

Tedlow calls the school a "therapeutic alliance between technology and the liberal arts." Its courses on topics seemingly far removed from the business of computers and gadgets unsubtly reinforce Apple's view of itself. For example, the Stanford political philosopher Joshua Cohen has lectured about pianist Glenn Gould's meticulous effort to record and then re-record the famous Bach Goldberg Variations. Jobs' famous obsession with the perfect screws on the inside of the original Mac can't be far from an Apple student's mind.

The course Tedlow has been teaching lately is called Moments of Truth. It features a discussion of Abraham Lincoln's famous "with malice toward none" second inaugural address, which he made into "a moment not of retribution but of reconciliation," says Tedlow. The 67-year-old former academic, who has remained almost completely out of the public's eye since joining Apple, also includes Margaret Thatcher's decision to commit to battle in the Falkland Islands and Johnson & Johnson CEO James Burke's handling of the Tylenol bottle-tampering crisis.

Tedlow draws a straight line from the moments of truth of Lincoln and others to the situation Cook faced when Jobs died. Sure, leading a beloved gadget maker



ANGELA AHRENDTS Cook wooed the former CEO of Burberry to run Apple's retail stores in a months-long courtship. China and luxury goods will be two areas of focus for her.



JONY IVE The famed industrial designer and Jobs confidant now alsoruns all "human interface" software for Apple, making him Cook's increasingly visible aesthete-in-chief.

isn't quite on par with reuniting a great nation ripped asunder by a bloody civil war. But the emotional parallels resonate. "I certainly think he had to come onboard and take the weight of everybody's expectations," says Tedlow. At a memorial service for employees in the courtyard of Apple's Cupertino, Calif., campus, Cook told the company, "Our best days are ahead of us"-a difficult message to deliver at that moment and one Tedlow compares to Lincoln's trying to reassure a warweary and deeply divided nation.

Convincing anyone that the post-Jobs era held great promise was a tough sell for Cook. The company had few headline-level innovations on the nearterm horizon. At a product launch just days after Jobs' death, for example, the voice-recognition application Siri was one of the company's few hints at something new. Yet Siri represented Apple playing catch-up to a feature Google's Android already offered. Worse, it wasn't particularly good. Siri quickly became the butt of jokes at Apple's expense for its frequent inability to understand its user.

A year later Apple was in hot water for another weak product, its version of mobile mapping. Apple had booted Google Maps from the prime position on the iPhone in favor of its own version. But Apple Maps was riddled with errors, comically leading users to wrong destinations. The product was so lame that Cook publicly told customers he was "extremely sorry" for the debacle. He recommended that they use Google Maps, among other products, instead. A short time later Cook fired Scott Forstall, the head of mobile software and a longtime Jobs acolyte.

In early 2013, Cook confronted another senior management challenge. His highest-profile hire from outside Apple had been John Browett, the former head of the U.K.-based discount electronics chain Dixon's. The chief of a low-end retailer was a curious choice for the head of Apple's high-touch retail operation. (Ron Johnson, the former Target executive who had run the Apple Stores division since its inception, had by this time left Apple and later signed on as CEO of J.C. Penney.) Browett didn't fit in at Apple—he angered store employees by changing scheduling practices, for example—and Cook dumped him in March 2013. (Browett later acknowledged in a speech that it was a shock to be let go not because he was incompetent but because he didn't gel with the Apple culture. Reached for comment, he declined to elaborate.)

Looking back, Cook sees the episode as part of his education as CEO. "That was a reminder to me of the critical importance of cultural fit, and that it takes some time to learn that," he says. As CEO, "you're engaged in so many things that each particular thing gets a little less attention. You need to be able to operate on shorter cycles, less data points, less knowledge, less facts. When you're an engineer, you want to analyze things a lot. But if you believe that the most important data points are people, then you have to make conclusions in relatively short order. Because you want to push the people who are doing great. And you want to either develop the people who are not or, in a worst case, they need to be somewhere else."

Another challenge for Cook was figuring out how to deliver Apple's message when its new products simply weren't ready to be discussed. At a technology industry conference in mid-2013, for instance, Cook was so elusive that investors openly questioned whether he had a vision for the company. Apple's stock by that time had fallen back to the level at which it had traded when Cook took over.

All the while, behind closed doors, Cook was shoring up his management team as the company was working on the new products the world so badly wanted. In late 2013 he lured the CEO of Burberry, Angela Ahrendts, to head Apple's retail stores. A year later Apple launched the large-screen iPhone 6 and its even bigger iPhone 6 Plus. It also unveiled a new payment system, Apple Pay, and its soon-to-be-shipped Apple Watch. The new iPhones, more than anything else, put Apple back on its upward trajectory. It sold a stunning 74.5 million of them in the last quarter of 2014, as the company generated \$18 billion in profits, sending the stock price on an upward tear.

The success has allowed Cook to take mistakes in stride. In late 2014 a glassmaker called GT Advanced Technologies, which Apple had contracted with to



JEFF WILLIAMS An ex-IBMer who worked with Cook at the start of their careers, Williams succeeded Cook as operations chief. He's the executive who keeps Apple humming.

make a next-generation screen for its devices, declared bankruptcy when Apple declined to use its product. GTAT, as it is known, filed suit against Apple, claiming that its finances were ruined because of investments it made to fulfill the Apple contract. Apple, for its part, said it was blindsided by GTAT's bankruptcy. The two sides eventually settled, and Apple committed to building a data center and solar farm on the company's former manufacturing site in Arizona. Apple also was forced

to take a major write-off for the debacle—it won't say how large—a painful screwup for a company that regularly commits billions of dollars to its manufacturing processes. Jeff Williams, senior vice president of operations and Cook's successor in that role, says Cook told him three things after the lawsuit. "When I informed Tim of the problem, his response was, 'Let's see what we can learn from it. We're not going to bat a thousand. And we're going to keep betting on great technologies for our customers."

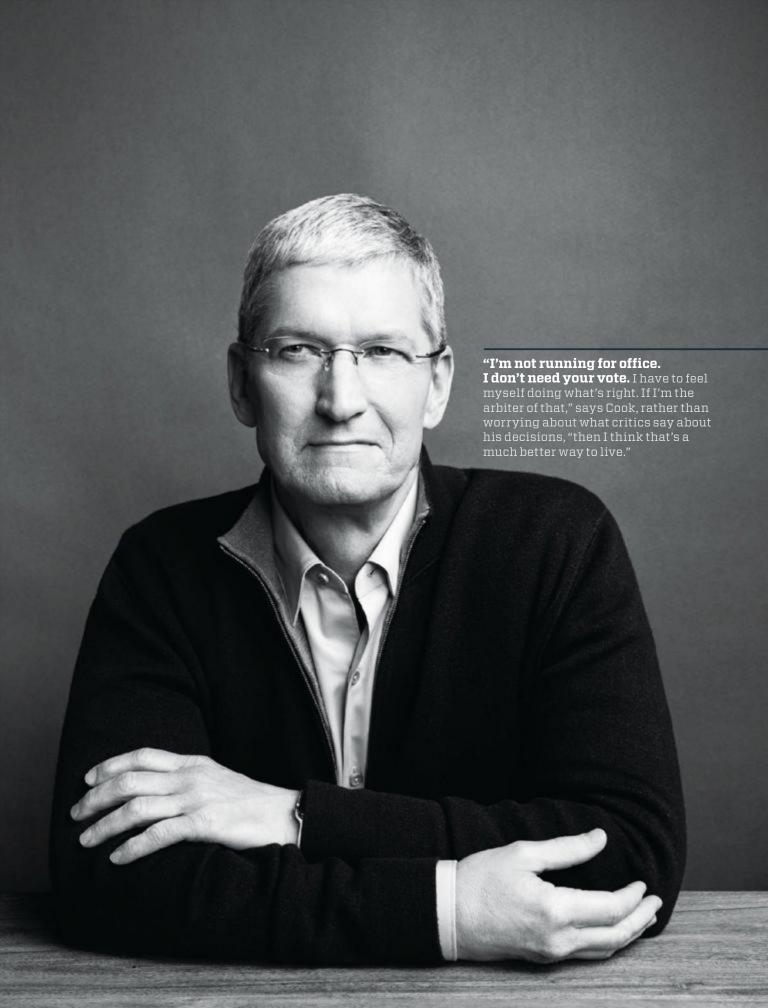
Cook's measured emotional approach in leading Apple is markedly different from his predecessor's, but the focus on core products and a long-term orientation are exactly the same. In that context, it isn't critical that Apple Pay or the new wristwatch amount to giant profit drivers. "I have a simplified view of Apple,"



EDDY CUE A 26-year Apple veteran and a dealmaker under Jobs, he is now Apple's emissary to the entertainment industry and boss of all online services—sometimes an Apple weakness.



LISA JACKSON Hired after running the Environmental Protection Agency for President Obama, Jackson looks after Apple's environmental conduct and a growing range of corporate social responsibilities.



says Jean-Louis Gassée, an Apple executive in the 1980s who now writes a widely read weekly column on Apple in the email newsletter The Monday *Note*. "They have and always have had one business, personal computers. Now they make them in three sizes, small, medium, and large—the iPhone, the iPad, and notebook and desktop computers. Everything else, including Apple Watch in the case of the iPhone, exists to push up the margins of those products." To Gassée's way of thinking, Apple's strategy under Cook resembles the digital-hub strategy Jobs put into place 15 years ago, where products like iTunes drove sales of the iPod and ultimately the Mac. "Tim is playing the long game in his own way," he says.

Cook frames the debate in terms of how investors ought to view Apple. "The kind of investors we seek are long term because that's how we make our decisions," he says. "If you're a short-term investor, obviously you've got the right to buy the stock and trade it the way you want. It's your decision. But I want everybody to know that's not how we run the company."



THE WORLD'S 50 GREATEST LEADERS



Disdained "the enterprise," a.k.a. selling to corporate IT departments.

Emphasizes the opportunity to sell to enterprises.



Pooh-poohed corporate philanthropy.

Trumpets philanthropy and encourages employee giving.



Hogged the limelight.

Shares the limelight with top lieutenants.



Opposed dividends and buybacks.

Accommodates Wall Street with dividends and buybacks.



Eschewed big acquisitions.

Bought audio company Beats for \$3 billion.



the helm of Apple product launches and other public events, Tim Cook came off as wooden. But then, no matter how well he had done, he would have compared unfavorably with Jobs, a virtuoso of the keynote presentation. As time has passed, however, Cook has clearly settled into the role. At the watch event, he emceed with a natural smile on his face. When he hugged the fashion model and maternal-health advocate Christy Turlington Burns—who has been using an Apple Watch on long-distance runs—there was nothing awkward about their interaction.

Cook even seems to be enjoying himself. The day

after the product launch, he presided over Apple's annual meeting in Cupertino, a tedious chore most CEOs endure rather than relish. Cook, on the other hand, visibly cottoned to the give-and-take with shareholders, answering questions in a folksy manner—and amiably avoiding the ones he didn't want to address. After twice sidestepping questions about whether Apple would buy the much-admired and rather Apple-like automaker Tesla Motors, he playfully praised himself for artfully not taking the bait. "There's some advantage to being CEO," he quipped.

While being CEO allows Cook the luxury of swatting away unwanted questions, it also gives him a powerful platform to address a host of other issues—even if they aren't directly related to Apple. In late October his home state inducted him into its Alabama Acad-

Above: Cook and Jobs at an Apple event in 2007. Left: Cook at Apple's offices in Cupertino, Calif., on March 17, 2015. An engineer by training, he says, "The most important data points are people." emy of Honor. It chose Cook to represent his class—which included University of Alabama head football coach Nick Saban and Sen. Jeff Sessionsas the sole speaker at the ceremony, a decision some came to regret. Cook moved quickly beyond platitudes and used the occasion to lambaste Alabama for its slowness to act on racial equality, on educational opportunity, and on equality for gay, lesbian, bisexual, and transgender people. "This isn't right," he said. "It isn't reflective of our values."

A local television station captured an awkward moment afterward between Cook and

the Republican governor of Alabama, Robert Bentley, who audibly took umbrage at Cook's comments. Don Logan, an Alabamian who is a former CEO of Time Inc. (Fortune's owner), was in the audience at the state capitol in Montgomery. "Tim is a very courageous guy," says Logan, a fellow Auburn University alum, who notes that the state legislature had only recently passed a bill to not allow gay marriage. "He knew he was speaking into the wind and that most people in the room didn't agree with him."

A few days later Cook announced publicly, in an essay in *Bloomberg Businessweek*, that he is gay. With no further comment from him or Apple, the disclosure set off a media frenzy, most of it fa-

New **Highs** \$150 billion

125

100

2005

APPLE CASH

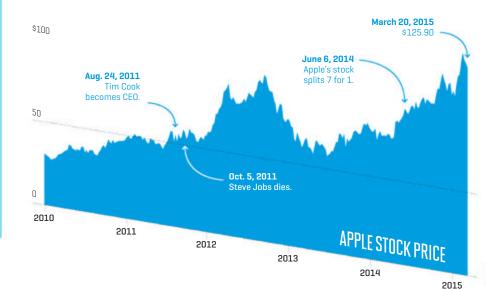
RESERVE

\$155.2

Apple's stock has soared under Cook. And its cash hoard has grown to more than \$150 billion, even though Cook has instituted dividends and share buybacks.

APPLE'S CASH MANAGEMENT AMOUNT SPENT IN STOCK **BUYBACKS UNDER COOK** 50 25

2014



vorable. Looking back, he says that he primarily acted out of concern for kids who were bullied at school, some to the point of suicide, and because of the many states that still allow employers to fire workers over their sexual orientation. Also, whereas U.S. courts were moving surprisingly quickly on the issue, "I didn't feel like business was exactly leading the way in the executive suite."

Cook says that he'd come to the decision of coming out "quite some time ago" and that his announcement was viewed internally at Apple, where his sexual orientation was more or less well known, as a "yawner." Speaking out so publicly was a big step for Cook, though, who has described himself as intensely private and who is rare among big-company CEOs for being genuinely ill at ease talking about himself. "To be honest, if I would not have come to the conclusion that it would likely help other people, I would have never done it," he says. "There's no joy in me putting my life in view." Referencing the often-cited line that "to whom much is given, much is required," Cook says, "I've certainly been given a lot."

The move made Cook famous for more than being the person running Steve Jobs' company. Mike Sullivan is a San Francisco lawyer with the global law firm Pillsbury Winthrop Shaw Pittman who advises startup technology companies. Like Cook, he views his sexual orientation as a point of pride and affiliation but something that doesn't define him professionally. "We have 500 CEOs in the Fortune 500 out there,



and I can guarantee you some of them are gay," he says. "The message Tim sent is, 'It's okay to be yourself. You don't have to lead with it. But you don't have to hide it either."

Cook has become so ubiquitous that it's tough to remember when he wasn't so visible. On an early March trip to Europe he huddled in Berlin with German Chancellor Angela Merkel and in Brussels with Andrus Ansip, the former Prime Minister of Estonia and now the European Commission's top regulator on digital issues. He is featured in a new book by the former Fortune journalists Brent Schlender and Rick Tetzeli, who report that Cook offered

Jobs a piece of his healthy liver for a transplant. (Jobs turned him down.) In March, Cook even phoned in to a surprised—and delighted—Jim Cramer during a live airing of the 10th anniversary of the broadcaster's financial shoutfest on CNBC.

Representing their companies publicly is obligatory for CEOs, but Cook takes public stands on issues including stopping the transmission of AIDS, human rights, and immigration reform. He sees them as opportunities for leadership. "You want to be the pebble in the pond that creates the ripple for change," he says, adding that Apple's people have long cared about such issues even if they haven't previously spoken so openly about them. To Cook, changing the world always has been higher on Apple's agenda than making money. He plans to give away all his wealth, after providing for the college education of his 10-year-old nephew. There should be plenty left over to fund philanthropic projects. Cook's net worth, based on his holdings of Apple stock, is currently about \$120 million. He also holds restricted stock worth \$665 million if it were to be fully vested. Cook says that he has already begun donating money quietly, but that he plans to take time to develop a systematic approach to philanthropy rather than simply writing checks.

An irony of Cook's Apple is that the company is becoming visibly more open under its guarded CEO than it was under the publicity-savvy demigod who ran Apple before him. Whereas Jobs severely re-

Cook on Apple's Corporate "The culture of a company to me defines how

Culture

excellent it will be, how helpful it will be, how ambitious it will be, how innovative it will be. But if there's a self-honesty in the culture,

[it also defines] how quick it is to admit the mistakes that every company makes. There's a whole set of things. Does a company have integrity or not? Does a company desire to do something more important than simply making money? Is there a reason for being, and do the employees really get the reason for being?

"These things are critically important to me. But the company isn't me. What Steve did is ingrain that culture, and he deserves the mother of all trophies in life for doing that. He gave a great gift to the world there, and it's probably one of those things that he's underappreciated for in the external world. He's clearly not underappreciated for it internally. I think people might describe it differently. But I think virtually everyone at Apple knows how deeply the culture of the company is ingrained. And in my mind the company wouldn't nearly be where it is today without that strong culture. It would not."

> stricted interactions between all his employees and the press, Cook has ushered in a period of glasnost with the news media. It is highly unlikely that Jobs would have tolerated, for example, *The New Yorker*'s recent 16,000-word profile of Jony Ive, Apple's chief designer. Cook says such exposure is part of his plan. "My objective is to raise the public profile of several of the folks on the executive team, and others as well. Because I think that's good for Apple at the end of the day."

> The new openness serves two purposes. First, it ensures that the world continues to talk about Apple. Granting a longer leash to executives with healthy egos also is a valuable retention tool. "A true coach is happy with his star players getting media time," says Gassée, the ex-Apple executive. "Tim Cook is a true impresario who takes care of his *prime donne*. As long as the box office is good, the impresario will do that."

Building for the Future TIM COOK IS STANDING ATOP A GIANT

mountain of dirt. He has come to tour the construction site in Cupertino that by the end of 2016, if all goes as planned, will be Apple's new corporate campus. The dirt has been excavated from the massive pit below, and the pile is just about eye level with where the rooftop will be over the four-story, ringed building that will soon rise here. The building's doughnut-shaped design has sparked many comparisons to a spaceship. Looking down as trucks and workers



WORLD'S

scurry to and fro, Cook begins to talk about one of the subjects that really gets him going: where people work. It always amazes him, he says, how drab workspaces are in metropolitan office skyscrapers. Apple's new home will not be like that. "It shouldn't be a place that doesn't turn on your creative juices," he says, musing about how future college recruits will feel when they first visit. Visible in the distance are Apple's existing Cupertino campus, downtown San Jose, and Levi's Stadium, where the San Francisco 49ers play and which, incidentally, would fit into the 30-acre park that will be at the center of the main spaceship building.

Steve Jobs spent a considerable amount of the last two years of his life planning the campus, including hiring the British architect Norman Foster to design it. Everything about the site is large scale, and Cook, a numbers man, can recite most of the figures by heart. The main building itself will be 2.8 million square feet and will house 13,000 employees. About 2,000 more workers will fill up adjacent buildings on the site, which will include a 100,000-square-foot fitness and wellness center, a café that will serve 15,000 lunches a day, and more than 8,000 trees, all native

to the Santa Clara Valley.

Cook visits the work site periodically —including twice already with Apple's board—and he exhibits an engineer's glee at watching the 22 construction cranes that dot the landscape. He says Apple hasn't decided yet exactly what it will call "Apple Campus 2," the current internal designation. Some naming element of the buildings or the entire locale will almost certainly include an homage to

The building site of what will be Apple's new corporate campus, photographed on March 3, 2015. Cook calls the high-tech complex "the mother of all products.



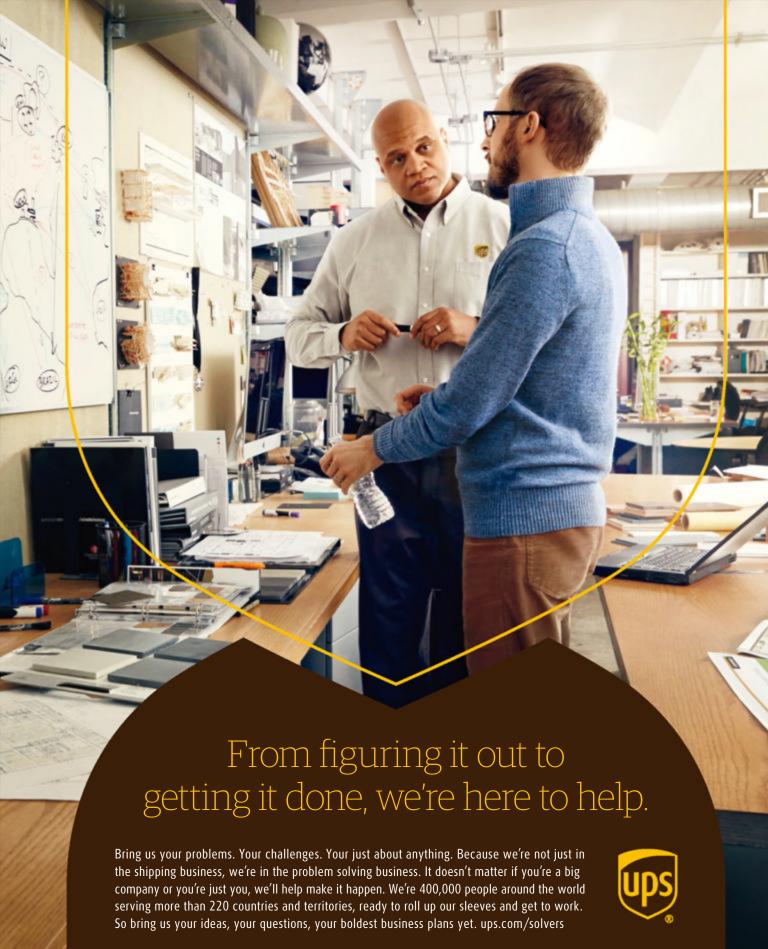
Jobs, depending on his family's wishes, says Cook.

On a 90-minute tour of the site, Cook dishes out details of the campus, which he calls "the mother of all products." For instance, Apple is investing in cutting-edge technology to manage tasks as mundane as parking. A system of sensors and apps will play traffic cop for employees as they enter the facility, eliminating the fuel-wasting hunt for a parking place. Just as it has done for its retail stores, Apple has built entire mockups of wings of the building to see how they look—and then torn them down. As to why Apple isn't building higher than four stories, the same height as its existing campus, Cook says, "When we mocked up five we didn't like the looks of it." He is particularly excited about the mostly below-ground, 1,000-seat auditorium in the southeast corner of the campus, which will be the company's new site for all its public presentations other than its annual developers conference. "No more scheduling months ahead of time around other people's schedules," says Cook enthusiastically.

In talking about the new campus, Cook is particularly ornery about one label for it. "I hate the word 'headquarters,'" he says. "There's real work going on here. It isn't overhead, and we're not bureaucrats." Indeed, among Apple's employees there is considerable speculation as to which groups will be assigned to the new building-and which will be relegated to the existing real estate. "We've decided three times," says Cook. "And we'll probably decide it three times more."

On the drive back to Cook's current office at 1 Infinite Loop, his Apple Watch emits a chiming sound that sounds like the *ding!* from a symphonic triangle. Cook is wearing the entry-level Sport version of the watch, with a white plastic wristband. It's the first time in nearly two hours that he's received a notification, and he says it's a text message from his assistant that Al Gore, an Apple board member, would like to speak with him.

The electronic interruption doesn't require Cook to extract his iPhone from his pocket, one of the key attributes Apple believes will drive adoption of the watch. It does give him an opportunity to show off some of the watch's features, including the iconic Mickey Mouse watch face, cleverly updated so that the Disney mascot cheerfully taps his feet at the rate of one per second. A self-described fitness nut, Cook proudly shows off his daily physical activity as measured by the watch. So far he has clocked 50 minutes of exercise and has traveled 8,139 steps, or about four miles. An early riser, he has been on his feet for 12 hours, and it's not quite 3:30 p.m. His workday, and his job leading Apple, are far from over. In





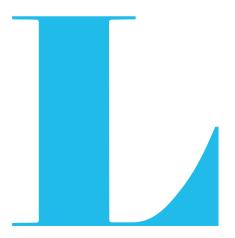




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LEUNG CHUN-YING IS THE LEADER OF

Hong Kong. As chief executive, he signs bills into law, issues executive orders, appoints and removes judges and other public officials, and pardons convicted criminals. He's the leader—except that last fall well over 100,000 Hong Kongers chose dramatically not to follow him. When they learned that the 2017 election for Leung's position would not be free and democratic, as authorities had previously suggested, they poured into the streets and followed Joshua Wong, then 17, who had started a pro-democracy student group. Leung, 60, commanded a vast city administration, including police wielding pepper spray and truncheons. Wong had a cellphone. Yet the protesters paralyzed Hong Kong for three months, Leung's already low approval ratings plunged to their lowest ever, and Wong landed on the cover of *Time*'s Asia edition, which called him the "Voice of a Generation."

So who's the real leader? The answer is obvious: Leung has the leader's job, but he doesn't have leadership. Wong is the one who demonstrated that—which is why he's the one on our 2015 roster of the World's 50 Greatest Leaders.

We cast a wide net in assembling our list, which includes leaders without any formal designation, like Wong, as well as elected government officials, CEOs, chiefs of NGOs, clergy, coaches, athletes, artists, and more—all judged on their leadership within their professional domains, industries, or fields of service or governance. To make this roster, it was not enough to be brilliant, admirable, or even supremely powerful (see Moisés Naím's essay on Vladimir Putin). We set out to find singular leaders with vision who moved others to act as well, and who brought their followers with them on a shared quest. We looked for effectiveness and commitment and for the courage to pioneer. All had to be active in leadership roles, though a long history of leading is something that many on our list share. And only a few are repeats from last year; in each case, he or she had to requalify with new achievements in the past 12 months. We sought nominations for this year's group from those on last year's list and from a wide range of leadership experts (see page 59), then added names turned up by Fortune reporters. We vetted our nominees with appropriate experts and made our judgments.

The generational difference between Leung and Wong symbolizes a larger point: that today's leadership isn't the same as yesterday's. Yes, some elements are eternal, and it's tempting to believe we can learn what we need to know by studying, as various books have urged, the leadership secrets of Genghis Khan, Ulysses S. Grant, the Salvation Army, and Santa Claus, among others. We can learn plenty from them, but in truth, effective leadership is forever changing, and like everything else, it's changing faster than ever. Successful leadership may be eternal, but it's also brand-new.

The most important change affecting today's leaders is that they're losing control. Whether



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they're leading a company, a sports team, a nation, a congregation, the supporters of an idea, or any other group, their success depends increasingly on influencing people they cannot control with money or force. Lest you think it was ever thus, note what Robert Malott, CEO of chemical company FMC in the 1970s and 1980s, once said to Fortune: "Leadership is demonstrated when the ability to inflict pain is confirmed." A lot of CEOs really liked that quote back then, but today if you asked 10 friends who said it, I suspect most of them would guess Vladimir Putin. (He isn't on our list.)

Today's starkly different reality is why the Harvard University Initiative for Advanced Leadership exists. "The premise behind our initiative is that the problems you have to deal with now are messy, complex problems outside your organization," says the program's director, Harvard Business School professor Rosabeth Moss Kanter. "You can't tell people what to do. You have to deal with many constituencies that you don't control."

A good example is the massive recall mess that Mary Barra faced upon becoming General Motors CEO in January 2014. Her job ultimately is to lead 212,000 employees in a way that maximizes returns to GM's owners, but to do it she has had to, among many other tasks, work skillfully with victims' families, federal regulators, U.S. senators, the Justice Department, at least one federal judge, plaintiffs lawyers, and media. Oh, and now an activist shareholder, Harry Wilson, representing four hedge funds: Together they own just 2.1% of GM, yet Wilson's call for the company to give more cash back to shareholders attracted global attention. After negotiations, Barra agreed to return \$5 billion to shareholders—while also reassuring employees, investors, and suppliers that even without that money to invest, GM would still "deliver sustained profitable growth." Barra's crucial constituencies are almost beyond counting.

Or consider an even more extreme example, the situation of Joanne Liu, international president of Médecins Sans Frontières (Doctors Without Borders). She controls practically no one. The organization's office staff is modestly paid, but the tens of thousands of doctors, nurses, and others who deliver relief in many of the world's most dangerous places are volunteers. Governments can keep them out. Local people sometimes attack or kidnap them. Only a vast, easily disrupted network of voluntary cooperation enables anything good to happen—and yet it happens.

Even employees can't be controlled the way they used to be. "As an employer, you used to look at the workforce as *your* workforce—they belonged to you," says Josh Bersin, a consultant on human capital strategies. "Now, because of changes in employee values, you have to think of your workforce as a bunch of volunteers." The best ones, especially among millennials, want to work for organizations pursuing a worthy mission. And through social media and employment websites, they're continually aware of other jobs available to them and how other workplaces stack up against their own. It's no use trying to push them around.

As a handy rule of thumb, leaders today may just want to assume that everyone knows everything, and everyone can communicate with everyone else at any time. Those assumptions aren't strictly true, of course, but they're close enough to be useful. Doomed leaders see the new reality as a damnable constraint on their effectiveness; great leaders see it as a huge opportunity. They can gather more information more easily than their predecessors would have dreamed possible, and they can communicate with their many constituencies in more ways and more often. Even with less control, a leader's opportunities to be effective are greater than ever.

Disoriented by the new rules, leaders can find comfort in the eternals. People everywhere still want leaders who will speak to them honestly about the challenges they face together. They want leaders who show courage and see hope, who say, "I see the way to a better future. Follow me." That was the message that brought the two mayors on our list, Mike Duggan of Detroit and Tri Rismaharini of Surabaya, Indonesia, to the helm of the troubled cities they're turning around.

Most deeply, people still want to be led. They understand instinctively that no group achieves anything worthwhile without someone in charge. That's why, especially in crises, people inevitably rally around a leader. What's strikingly new is that in a radically more open, more connected world, that leader could be the designated authority—or it could be a 17-year-old kid with a cellphone. Our World's Greatest Leaders are the best examples we've found of how to succeed in this challenging new environment, where leaders must earn their leadership every day.



Mario Draghi

President European Central Bank Bank, surely has one of the toughest and most significant jobs in the world. Growth and stability in the eurozone, and more broadly in the European Union, should be an anchor for the world economy. But its weaker economies have floundered for years, and Europe has long lacked the political leadership to address their problems. Draghi, drawing on long experience in both government and business, has moved to fill that void. Taking full advantage of the instruments available to the central bank and his personal powers of persuasion, he has carried out his own pledge to do "whatever it takes" to hold the eurozone together.

Draghi's role requires him to balance widely divergent national views and circumstances. Ultimate success is dependent upon confidence in the skill, capacity, and integrity of a man able to reconcile the different positions. Draghi, born of Italy but a man of Europe, has provided that leadership.

Victory in the battle for growth and stability—and political reconciliation—within Europe has not yet arrived. However, there is little doubt that Draghi has provided a beacon of needed leadership. Given the weight of Europe in the world economy, we all have a stake in his work. —Paul Volcker

"

MARIO DRAGHI
HAS BEEN
INSTRUMENTAL
IN KEEPING
NOT JUST THE
EURO BUT
ALSO THE EU
ITSELF
ON TRACK
DURING A
VERY TRYING
PFRIOD "

• KEN CHENAULT CEO, AMERICAN EXPRESS



There hasn't been a stronger leader in China since the reformer Deng Xiaoping—or maybe the revolutionary Mao Zedong. Xi shares traits with both. He has consolidated power; fired, fined, or jailed a quarter of a million cadres in his massive corruption purge; and cracked down on dissidents. He's also behind China's robust nationalistic message directed at world powers. At the same time he has preached meaningful reforms including, importantly, strengthening the rule of law. Much now depends on his ability to advance those reforms while managing the economy's inevitably slowing growth and its transition from being investment-based to consumption-based. That's a monumental job, of course. A stumble could spark insurrection and disaster, but so far Xi is holding things together. Veteran China watchers in the West consider him a true leader, albeit one whose record remains incomplete. That's why many are calling this the most interesting time in China in decades.



POPE FRANCIS CATHOLIC CHURCH

Since becoming pope in 2013, Francis (the former Jorge Mario Bergoglio) has been shaking up the management of one of the world's largest bureaucracies: the Roman Catholic Church. That earned him the ton spot on Fortune's list of World's Greatest Leaders last year-but his vision, fortitude, and commitment to reform were so extraordinary in 2014 that we're including him again this year. It is not just that he has led by example—by now it's well known that the pope, who has long championed the virtues of charity and modesty, has forgone the traditional suite in the Apostolic Palace, opting instead to reside in a one-bedroom apartment in the Vatican questhouse. Less known is how decisive he is in personnel choices, replacing the boards of the Vatican Bank and its main regulatory body with highly respected businesspeople from around the globe. And though there has been pushback from entrenched interests at the Vatican, this pontiff is not easily conned: He gets information on all important church personnel and organizations from a variety of sources and shuns toadies and cronies. Operating budgets are now pruned to ensure that as much money as possible can go to charity. This, after all, is a pope who lives his own lessons.





NARENDRA MODI PRIME MINISTER / INDIA

Modi rode to victory in elections last year on a wave of economic dissatisfaction. But while many reformers before him have talked a good game, Modi has actually begun to deliver on his promises-making genuine progress in his efforts to make India more business-friendly and less regulated, addressing violence against women, improving sanitation, and patching up relations with other Asian countries and the U.S. There is, to be sure, a long way to go. Fully achieving any of his goals will require reforming India's powerful, widely corrupt bureaucracy. But he has put the bureaucrats on notice while taking action where he can-for example, by substantially increasing allowable foreign investment in the insurance industry. And in greatly simplifying the procedure for getting a visa to visit India, he has symbolically lowered the status of bureaucrats and raised that of notential outside investors. Modi still faces such huge challenges as privatizing India's vast portfolio of state-owned businesses and deregulating labor markets. But simply by declaring those as goals, he has seized control of the national agenda and sent a message that it's time for all of India—not just its infotech services sector-to join the 21st century. The IMF and other forecasters now believe India will be growing faster than China in a year or two.





Taylor Swift didn't become the highest-paid woman in the music business by accident. Pop's savviest star has crossed swords with Spotify, embraced corporate sponsorship, and moved to secure dozens of trademarks (including phrases like "This sick beat")-plus she has proved shrewder at honing a brand in the social media age than virtually any other person or company. And she's done it without resorting to dumbed-down salacious gimmickry. (Swift, ahem, is arguably the anti-Miley Cyrus.) With 1989, the top-selling album in 2014, Swift's efforts to ensure she gets paid for her music could have a huge ripple effect on the way artists are compensated in an era of free streaming.



JOANNE LIU INTERNATIONAL PRESIDENT / MÉDECINS SANS FRONTIÈRES

Liu. a Canadian-born physician, has worked with MSF since 1996, when she took on her first field assignment: caring for Malian refugees in Mauritania. Since then she has taken part in more than 20 missions on four continentshelping victims of the Indonesian tsunami and Haitian earthquake, as well as refugees and survivors of sexual violence in Somalia, Congo, and Sudan's Darfur region, to name just a few. But Liu's job got even more demanding in October 2013, when she was named the group's international president just two months before the first West African patients were diagnosed with Ebola, the start of what became the deadliest and most widespread outbreak of the horrific disease to date. Liu and MSF didn't dither for a second. She helped lead the organization's fast and aggressive response to the virus, establishing field hospitals in the middle of the hot zone and pressing African leaders and public health officials worldwide to step up their efforts. The pressure worked. At least for the time being, this contagion has been contained.

THE WORLD'S 50 GREATEST LEADERS

No. Solve I Supreme Court Chief Justice / Supreme Court

No one doubts it's the Roberts Court now. At age 60, and already in his 10th year in the role, the Chief Justice of the United States commands universal respect, even from the far older members of the ferociously polarized panel. Administratively, he leads not only "the nine," but also some 180 appellate judges, 680 district judges, 350 bankruptcy judges, 550 magistrate judges, and the 28-judge Judicial Conference. In the Supreme Court's rightward journey, it is Roberts, one the capital's few remaining statesmen, who is setting the pace on how fast—and the limit on how far. This term his historic votes (and behind-the-scenes influence) will very likely determine if Obamacare survives and same-sex marriage receives constitutional benediction.





Immersed in GM's ignition-switch megacrisis almost since day one as CEO, Barra has deftly juggled the demands of investors, regulators, customers, plaintiffs, and employees on one of the business world's most visible stages. She's a company lifer, but her insistence on greater openness nonetheless broke the long-standing GM pattern of downplaying responses to product defects-and she is making a genuine, if still far from complete, effort to transform the automaker's sclerotic culture.



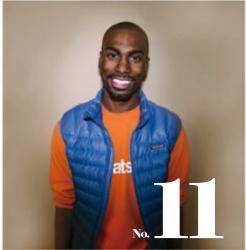


JOSHUA WONG ACTIVIST / HONG KONG PRO-DEMOCRACY MOVEMENT

Slight, and with a bowl cut and black-framed eyeglasses, the 18-yearold Wong doesn't look like Hollywood's idea of a charismatic rebel leader. But Wong, a co-founder of the student-activist group Scholarism, was one of the most compelling figures in Hong Kong's pro-democracy "Umbrella Revolution" last year. His nonviolent protest message and energetic idealism galvanized crowds that, over months, numbered in the hundreds of thousands.

WÖRLD'S





Johnetta Elzie DeRay Mckesson

Prominent voices for nonviolent protest Ferguson, Mo.

After the fatal shooting of Michael Brown by police in Ferguson, Mo., Mckesson left his school administrator job in Minneapolis to protest in St. Louis. He met Elzie at a medic training on how to respond to tear gas, and together they began to chronicle events in the shooting's wake as they unfolded with breakneck speed. Their award-winning online newsletter, This Is the Movement, now has some 15,000 subscribers—and the two reach another 100,000 followers via Twitter. "My role here is just to amplify the message," Mckesson tells Fortune. "We are two of many people."

No. 12



JEREMY FARRAR DIRECTOR / WELLCOME TRUST

In 2003, when bird flu reemerged in humans, studies at a key lab in Vietnam-run by a British clinician—gave the world deep insights into the virus. When that same physician, Jeremy Farrar, became head of the Wellcome Trust and its \$26 billion endowment two years ago, infectious-disease research got a new global champion. Under Farrar, Wellcome has not only doubled down on Ebola research but also fasttracked clinical trials of potential treatments.

No. 13



JAMES COMEY DIRECTOR / FBI

Even as the national debate on police shootings of unarmed black men has simmered just below the boil, few in law enforcement have been willing to talk about it. But that's just what Comey did in February, speaking bluntly about four "hard truths" of law enforcement and race. It could have been a disaster, but by openly addressing unconscious bias and other hot-button issues, the FBI boss earned praise from across the political spectrum and improved public esteem of his organization.

MARK CARNEY PARACHUTES IN FROM CANADA TO HEAD THE BANK OF ENGLAND AND DOES A UNIVERSALLY **ACCEPTED GREAT JOB. HE'S** CHARISMATIC, DECENT. AND COULD EASILY **RACK HOME**."

IAN BREMMER PRESIDENT/EURASIA GROUP No. 14



AI-JEN POO DIRECTOR / NATIONAL DOMESTIC **WORKERS ALLIANCE**

As the leader of one of the most significant new forces in organized labor, Ai-jen Poo has become the foremost advocate for living wages and health care benefits for the often ignored and underpaid nannies, housekeepers, and other at-home caregivers all over the country. Since 2010 four states have passed a Domestic Workers' Bill of Rights—in large part because of this 2014 MacArthur "genius" fellow's efforts.

No. 15



MARK CARNEY GOVERNOR / BANK OF ENGLAND

As governor of the Bank of England since mid-2013, Carney has displayed boldness and finesse-just as he did while central-bank chief in his native Canada during the financial crisis. Back then he was credited with keeping Canada's economy healthy, even as other developed nations raced to the brink. Now, with Carnev's steady hand, the U.K.'s economy is revving up too. The IMF predicts it will grow far faster this year than any other major European economy.

Ellen Johnson Sirleaf

President / Liberia

When a bitter civil war tore Liberia apart over a decade ago, Sirleaf helped mend the country, a remarkable feat of leadership that earned her the 2011 Nobel Peace Prize. Last summer, when another menace, the Ebola virus, wreaked havoc, Sirleaf was slower to act—a mistake she candidly acknowledged. But after that tepid initial response, she brought the full weight of her government to bear and helped bring the crisis to an end. To be sure, Liberia's president, the first female head of state in Africa, has not done enough to tackle the country's endemic corruption, but few think anyone but Sirleaf could have helped rescue the country the way she did—twice.



No. 17



HOWARD SCHULTZ CEO / STARBUCKS

Even if you thought Starbucks' move to encourage conversations about race in its stores was a terrible idea, you have to admit it was gutsy. It's also classic Schultz. He is known for embracing issues that most CEOs would rather not touch with a 10-foot pole, whether it's gay marriage, gun control, or a gridlocked Washington. And with the stock returning about 30% over the past vear (double the S&P 500), Schultz has proved that Big Business and social causes don't have to be mutually exclusive.

No. 18



BILL AND MELINDA GATES

FOUNDERS / BILL & MELINDA GATES FOUNDATION

It has been 15 years since the husband-and-wife team began their philanthropic mission to eradicate preventable diseases in developing nations. Since then their foundation has doled out nearly \$33 billion in grants and made stunning progress toward its goals. New cases of malaria have decreased 25%, and India, after a Gates-backed vaccination campaign, said in 2014 that it was polio-free.

MARY BARRA
HAS DONE A
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I THINK HER
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STRATEGIC
LEADERSHIP."

• THOMAS KOLDITZ YALE SCHOOL OF MANAGEMENT

No. 19



PETE FRATES
ADVOCATE / ALS "ICE
BUCKET CHALLENGE"

The former Boston College baseball player has lost almost all physical movement and his voice to amyotrophic lateral sclerosis. But his persistence in telling the world about his battle with the neurodegenerative disease sparked the Ice Bucket Challenge-the most viral fundraising campaign in history bringing in \$115 million for the ALS Association to date. Videos of people dousing themselves with ice water, meanwhile, made the search for a cure a national cause.

No. **20**



MIKE DUGGAN MAYOR / DETROIT

KEVYN ORR FORMER EMERGENCY MANAGER / DETROIT

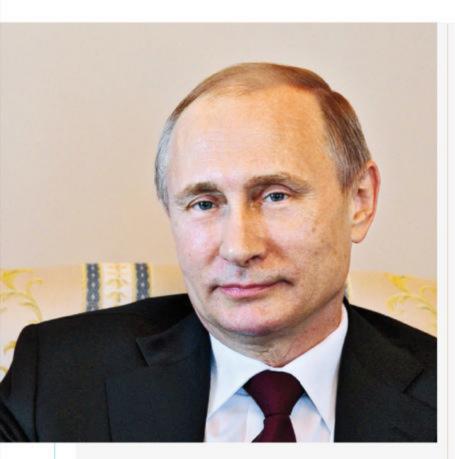
The nation's largest-ever municipal bankruptcy could have been a disaster. It was anything but. Orr aggressively shrank the city's obligations to bondholders and set the stage for a complete financial overhaul. In his first year in office, Duqgan proved a driven and effective manager, installing over 20,000 new streetlights, shortening emergency response times, and balancing the city budget for the first time in over a decade.

No. **21**



HELENA MORRISSEY
CEO / NEWTON INVESTMENT MANAGEMENT

While her day job is helming a London firm managing \$55 billion in assets, Morrissey is also leading the 30% Club, a campaign to make public-company boards in the U.K. 30% female. By convincing (mostly male) chairmen that diverse boards produce superior shareholder returns, the charismatic mother of nine has made progress at home-FTSE 100 boards are 24% female, vs. 13% in 2010. She's now bringing her quest to the U.S., where board diversity has further to go.



Putin's Ebbing Power

The Russian President helped build his country's aspirational middle class. It may ultimately be his undoing.

By Moisés Naím

UNTIL RECENTLY VLADIMIR PUTIN

was customarily included in lists of the world's most powerful people. Throughout a nearly 16-year reign, Putin's brand of leadership-full of swagger, bare-chested photo ops, and tiger hunting-has brought him wide popularity at home and even grudging admiration abroad, a fact that was made clear by his selection as Time's 2007 Person of the Year. "[He] makes a decision and he executes it—quickly. And then everybody reacts. That's

THE WORLD'S

what you call a leader," said former New York mayor Rudy Giuliani on Fox News last year. After Putin's 2009 speech at the World Economic Forum in Davos, the CEO of one of the world's largest companies told me, "He is a thug, but we have no option other than to deal with him and his cronies. He is just too powerful."

At least that's how it has been so far. Now times are changing. Putin continues to wield immense power, but less than before, and betting that his power will increase would be a long shot. The Russian President is clearly more constrained than he has been at any time since he took office, as multiple changes overtaking the country make his grip on power less secure. Unlike the Russia of the early 2000s. when Putin ushered in a transformative and economically uplifting era, the country today is spiraling downward. The economy teeters on the brink of recession, battered by falling oil prices (50% of government revenue comes from the sale of oil and gas), onerous economic sanctions, massive capital flight, and disappearing foreign investment.

Last year alone, the ruble lost half its value, food prices rose 23%, and inflation accelerated to 16.7%. The Kremlin has had to deploy massive resources to bail out some of the nation's largest companies and banks. Standard & Poor's in January cut the country's credit rating to junk. The continuing conflict with Ukraine may lead to more sanctions and isolation from the international community. And Russia's corruption is notorious: In a 2014 survey Transparency International ranked it 137th out of 172 countries, tied with Iran, Nigeria, and Lebanon.

Yet Putin's approval rating hovers around an astonishing 85%. Even in a police state where censorship stifles opinion polls, it's clear that he enjoys broad support. His takeover of Crimea was viewed favorably at home, where most feel the peninsula rightfully belongs to Russia, and his continued belligerence along the border with Ukraine reinvigorates national pride. Years of high oil prices that ended only last fall brought Russia a dramatic rise in prosperity: Poverty waned, the middle class expanded, and overflowing government coffers enabled Putin to fund all kinds of feel-good initiatives for a society still reeling from the indignities of losing its standing as a superpower.

TRANSFORM

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WORLDWIDE CONSULTING

Domestically, such popularity masks an extremely dark side. Putin has made life at least difficult for political opponents; critics are often silenced, jailed, or worse. Even if Putin was not directly responsible for the brazen murder of opposition leader and Putin critic Boris Nemtsov, he has cultivated an atmosphere that strongly discourages dissent. The Kremlin has consolidated control over nearly all Russian media and has moved to block, close, or censor any independent press and the Internet. In a country where 90% of citizens get their news from television and the three main stations are controlled by the state, Putin exerts enormous influence in crafting the message delivered into Russian homes. While enjoying their newfound middle-class comforts—and toasting their benefactor many seem to have grown apathetic about the swelling police state.

But how long can high approval ratings last in a country so economically and socially frail? To hold off the storm, Putin is successfully distracting the public with international theatrics that tap into his people's devotion to the motherland. Unfortunately, the maneuver will only deepen the more troubling economic crisis at hand by further cutting off the nation from the global economy. Even after 16 years of absolute power, Putin isn't immune to forces that will erode the barriers that have kept him on top.

Those forces are global: In every continent and across every sector of human activity, the old order is losing ground. Previously uncontested leaders in government, the military, religious organizations, and businesses are being undermined by unknown or once negligible actors: "micropowers." Think of ISIS, the destabilizing fringe political parties in Europe, and destructive lone hackers like Edward Snowden.

Deep transformations in society drive those trends. There is more of everything-more people, countries, cities, political parties, and armies; more goods and services, and more companies selling them; more weapons, medicines, students, computers. More people are in the global middle class. Because of this "more" revolution, humanity on the whole is living longer and healthier lives, with basic needs addressed far better than ever. In addition, this more of everything now moves more, making the world harder to control. Information travels



Moisés Naím is a distinguished fellow at the Carnegie Endowment for International Peace and the author of The End of Power: From Boardrooms to Battlefields and Churches to States, Why Being in Charge Isn't What It Used to Be (Basic Books).



UNLIKE THE RUSSIA OF THE EARLY 2000s, WHEN PUTIN **USHERED IN** A TRANSFORM-ATIVE AND **ECONOMICALLY** UPLIFTING ERA. THE COUNTRY IS SPIRALING DOWNWARD.

faster and wider. Migration and urbanization are uprooting and transforming towns and cities. Global trade has skyrocketed, and money moves at the speed of the Internet. Power needs a captive audience, so the mobility revolution makes it easier for the subjects of unwanted power to evade it and lets challengers circumvent the barriers that shield the incumbents.

Because of the more and mobility revolutions, people's mindsets and worldviews are being vastly broadened: I call this the mentality revolution. Changes in mentality and attitudes toward power and authority reflect a growing global consensus regarding the importance of individual autonomy as well as a corresponding popular intolerance of authoritarianism. Increased globalization enables people from disparate parts of the world to see how others live—and gives them aspirations to live better.

Russia has not escaped these trends. After former Secretary of State Condoleezza Rice met with young entrepreneurs in Moscow in 2007, she wrote in the Washington Post that while they were a relatively small percentage of Russia's people, they represented "a burgeoning urban middle class who own their apartments, furnish them at Ikea, and spoil their children at McDonald's. They ... have different expectations for the future." The middle class has flourished under Putin, and until the economy turned, it was expected to continue to grow in numbers and increase its living standards. Its members have grown accustomed to better-paying jobs and certain luxuries, like imported goods, modern electronics, cars, and better housing, health, and education. This is bound to change for the worse. As unemployment and inflation rise while the economy shrinks, the deteriorating conditions are bound to nurture popular discontent and even unrest.

During a recent presentation on the importance of independent media, one of the singers in Pussy Riot, the Moscow-based punk band highly critical of Putin, said, "Most Russians, they don't know about what the government is doing." Putin's real troubles will begin when the word inevitably gets out.

Is Vladimir Putin one of world's most powerful heads of state? Undoubtedly. Is his power increasing, and is he secure in his position? Of course not. Is he a great leader? Not even close.

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BEATRICE MTETWA LAWYER / HUMAN RIGHTS ACTIVIST IN ZIMBABWE

She has been called one of the bravest lawyers in Africa—and for good reason. Mtetwa, who was recognized by the U.S. State Department as one of 10 "international women of courage" last year and who was the subject of the 2013 documentary Rule of Law, has never wavered in her defense of human rights and basic freedoms in her native Zimbabwe. Despite beatings, arrests, and endless threats, she continues to fight for the rule of law.





CO-FOUNDER AND CEO / TESLA MOTORS / SPACEX

From electric vehicles to space travel. Musk has taken on some of the greatest technological challenges of our time. But what transforms him from mad inventor to visionary leader is his ability to convince the world of the viability of his projects, even ideas like a tube-based transit system called the Hyperloop. His electric-car maker, Tesla Motors, produces a world-class automobile. but so far nothing for the masses—nor an annual profit. Does it matter? No. We'll wait.





TRI RISMAHARINI MAYOR / SURABAYA. INDONESIA

Elected as Surabaya's mayor in 2010, Rismaharini has transformed her city of 2.7 million people into a new kind of Indonesian metropolis, one that celebrates green space and environmental sustainability. The city, long known for pollution and congestion, now boasts 11 richly landscaped parks and other green spaces. In some cases even cemeteries have been expanded and redesigned to absorb more water and reduce flooding, an ever-present risk in Indonesia.



MARK ZUCKERBERG CEO / FACEBOOK

"Everyone knows Mark Zuckerberg started Facebook when he was 19, but because of that extraordinary beginning, everyone tends to underrate the role he has gone on to play," says Silicon Valley eminence Peter Thiel, who himself has had an outsize role in the tech revolution. "Keeping the company relentlessly focused on the long-term future, he is the opposite of a quarter-to-quarter Wall Street CEO, and that's why he deserves to be recognized as a great leader." We couldn't have said it better ourselves.

Yao Ming could have



resulting in a more

public social debate.

Animal rights

activist

and former NBA star



JEFF BEZOS FOUNDER AND CEO / AMAZON.COM

Bezos has built a \$174 billion empire by continually churning out new products with mass consumer appeal, from e-reader tablets to streaming-only TV shows to, soon, goods delivered by drones. Not all his investments have paid off: Amazon's much-hyped Fire Phone, which made its debut last summer, was a flop. Yet the visionary CEO not only created his diversified behemoth from scratch but turned e-commerce from a fanciful idea into a globechanging practice.



KAILASH SATYARTHI FOUNDER / BACHPAN **BACHAO ANDOLAN**

Though overshadowed by last year's other recipient of the Nobel Peace Prize, Malala, Satyarthi has led the global fight against child labor for more than three decades. Founded in 1980, his Bachpan Bachao Andolan (Save Childhood Movement) has protected the rights of some 83,000 children around the world. Child labor, he says, is as much an economic issue, perpetuating poverty and illiteracy, as it is about human rights. In any case, no one has done as much to prevent it as he has.



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WORLD'S LEADERS



FOUNDER AND CEO / **XIAOMI**

Four years after building its first smartphone. Beijing-based Xiaomi is valued at \$45 billion. How Xiaomi got to that point, though, says less about its products (which get only so-so reviews) than its founder. From the start, Lei rebuffed industry convention—selling online only, giving users a strong voice on software changes, and hawking phones for a third of an iPhone's price. That, it seems, is how you get to be the world's fifthlargest smartphone maker overnight.



FOR MARK **ZUCKERBERG. FACEBOOK** IS STILL JUST STARTING. KFFPING THF RELENTLESSLY FOCUSED ON THE LONG-TERM **FUTURE. HE IS** THE OPPOSITE OF A OUARTER-TO-**OUARTER WALL** STREET CEO."

PETERTHIEL PARTNER / FOUNDERS FUND x. 30

BAYAN MAHMOUD AL-ZAHRAN

LAWYER / SAUDI ARABIA

In a country that bars women from driving, even the smallest advancement in women's rights should be celebrated. So there's no overstating the importance of al-Zahran's accomplishments. In 2013 she became the first woman licensed to practice law in Saudi Arabia, and last year she opened the kingdom's first-ever allwoman law firm. Though her firm will represent both men and women, one of its stated goals is to arque cases on behalf of Saudi women in court.

A verified photo of al-7ahran was not available.



LEBRON JAMES FUBWABU **CLEVELAND CAVALIERS**

With two NBA titles. James didn't need to return to Cleveland—a place without a championship, let alone hope of a quick one. But, he said, he wanted to bring a group together and help them "reach a place they didn't know they could go." The Cavs, atop their division as of mid-March, are reaching. Meantime James, newly elected VP of the NBA's Players Association, will face a fresh leadership challenge as labor negotiations with the league get underway.

CEO / Aetna

It was a bold move. In January, Bertolini told Aetna employees the company would boost its own minimum wage to \$16 (as much as a 33% increase for some workers) in April and substantially upgrade health benefits for those at the bottom rungs of the company—something that would improve the lives of thousands. The CEO called it an "infrastructure investment in the quality of our employees," saying it would not only help trim the \$120 million that Aetna currently spends each year to rehire and retrain workers but also boost employee engagement with customers. Investors seem to understand the rationale. The insurer's stock is up 22% since the Jan. 12 announcement, trouncing the S&P 500. And that may help explain why Wal-Mart, Target, and other big companies quickly followed suit.

No. 33



NGOZI **OKONJO-IWEALA** FINANCE MINISTER. **NIGERIA**

A magna cum laude Harvard grad who holds a Ph.D. from MIT, Okonjolweala has helped usher in a GDP-trebling decade of Nigerian prosperity. "She is a fearless promoter of sound economic policies," says Witney Schneidman, a former deputy assistant secretary of state for African affairs. No wonder Nigeria's two-term finance minister—and first woman in the rolehas been considered a ton contender to run the World Bank one day.

No. 34



RAJ PANJABI CEO / LAST MILE HEALTH

Paniabi spent the first nine years of his life in Liberia before fleeing that country's civil war. In 2007 he went back-this time with a medical degree and a mission: to train villagers in remote areas to be health care workers. Seven years later, when Ebola struck, Panjabi's Last Mile Health rapidly trained 1,300 Liberians—an army that helped keep the virus at bay in many parts of the country. Now he's working with Liberia's government to launch a national community health worker program.



#GoKnow





MCRAVEN (RET.)

CHANCELLOR UNIVERSITY OF TEXAS

McRaven, a former Navv SEAL, earned renown after overseeing the 2011 Special Ops raid that killed Osama bin Laden. But his fame swelled last year when he gave one of the all-time great commencement addressesa speech at his alma mater, the University of Texas, McRayen was named chancellor of the UT system in January, and he's already helping repair its reputation, which had suffered after an admissions scandal and other controversies.



CAROLYN MILES PRESIDENT AND CEO SAVE THE CHILDREN

Since being named CEO of the nonprofit group in 2011, Miles has helped double the number of children the organization reaches, both domestically and abroad. "She is managing an enormous global enterprise under some of the worst conditions imaginable," says Yale School of Management professor and leadership expert Tom Kolditz. "I suspect that her efforts contribute directly to saving the lives of more than a thousand children a day, maybe more."

HESSELBEIN IS A BEACON OF GRACE AND A WORLD THAT HAS GROWN FAR TOO CALLOUS. A THOUGHT I FANFR NF THOUGHT LEADERS. SHE IS AMONG THE LAST FEW OF A RARE BREED.

 THOMAS KOLDITZ YALESCHOOL OF MANAGEMENT



HESSELBEIN

PRESIDENT AND CEO / FRANCES HESSELBEIN LEADERSHIP INSTITUTE

Hesselbein rose to fame as CEO of the Girl Scouts of the USA, which she transformed in the 1960s and 1970s-an achievement for which she got the Presidential Medal of Freedom. In her late 90s, she continues to train a new generation of leaders through her eponymous institute. It's a lucky thing. After all, who else can reframe the work of the late Peter Drucker for an audience of millennials? (Yes. that's her latest book.)



JAMIE DIMON CEO / JPMORGAN CHASE

Dimon is arguably the first person to make the big-bank profit model work, and he hasn't wavered in his belief in that model even as regulators, academics, and some Wall Street analysts have pressured him to scale back. It's easy to forget that J.P. Morgan Chase was an also-ran before Dimon showed up (with the 2004 merger between JPM and Dimon's Bank One). Now it's the most important bank in the world. Love or hate the ways of Wall Street, it's hard not to admire its rough-hewn rajah.



When the Ebola crisis hit last year, the government (and the media) turned once again to Anthony Fauci, who has become America's doctor. Over the past 31 years, Fauci, who has made seminal contributions to our understanding of HIV, has headed the National Institute of Allergy and Infectious Diseases and put its nearly \$4.5 billion annual budget to good use, helping find ways to better treat and prevent infectious, immunologic, and allergic diseases. He has pioneered the development of therapies that extend the lives of those living with HIV/AIDS and pushed for a vaccine to prevent the infection—work that has earned him 38 honorary doctoral degrees from universities around the world, the National Medal of Science, and the Presidential Medal of Freedom.

 $_{No.}40$



PATRICK AWUAH FOUNDER AND PRESIDENT / ASHESI

UNIVERSITY COLLEGE

He made millions at Microsoft and then decided to make a difference back home in Ghana. Awuah founded a state-of-the-art, techfocused university in this sub-Saharan nation—a region where just 5% of college-age kids go to school. Many students at Ashesi University, founded in 2002, are the first in their families—or villages, for that matterto attend college. And notably, of the 168 students in the incoming class, 51% are women.

WORLD'S



FROM THE FIELD TO THE BOARDROOM. ATHLETES THAT MADE IT BIG IN BUSINESS.





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MITCH DANIELS PRESIDENT / PURDUE UNIVERSITY

The former White House budget director and Indiana governor is demonstrating that his greeneyeshade approach works just as well in academia. As president of Purdue University, he's frozen tuition, cut costs by zeroing out administrative waste, and negotiated a deal with Amazon to save students up to 30% on textbooks. No wonder Republican Pooh-Bahs are eager to lure him back to public life. For now, though, he has forsworn a return to politics.



THROUGH HIS DEFERENTIAL YFT NFCINFNIY DETERMINED DEMEANOR, POPE FRANCIS IS LEADING A TRANSFOR-MATION OF THE CATHOLIC CHURCH THAT RIVALS ANY CORPORATE TIIRNARNIINN YNII

 DENISE MORRISON CEO / CAMPBELLSOUP

COLLIN NAME."





RICHARD PAZDUR DIRECTOR / FDA'S OFFICE OF HEMATOLOGY AND ONCOLOGY **PRODUCTS**

Rarely does one hear anybody celebrate the FDA. But lately the agency's gatekeeper for cancer drugs is getting nearly universal praise for his effort to speed promising medications to market. In 2014 the FDA approved the greatest number of novel drugs in almost 20 years. Under Pazdur's leadership, says Len Lichtenfeld of the American Cancer Society, "the FDA has been more responsive to the needs of cancer patients."

_{No.} 43



BANGHART HEAD COACH / PRINCE-TON TIGERS WOMEN'S **BASKETBALL TEAM**

Taking charge of a mediocre team that had never made it to the NCAA tournament, Banghart coached the Tigers to five Ivy League championships. This season the Tigers went 31-0 before losing to No. 4-seeded Maryland in the NCAA tourney. But Banghart, who has a master's degree in leadership development, expects more of her players than great play: They must adhere to Princeton's tough academic standards ton.



Kalanick holds the rare distinction of being one of the country's most successful CEOs and also one of its most polarizing. In the past year the 38-year-old and his ubiquitous ride-sharing company faced multiple public-relations firestorms over privacy concerns involving customer data, the safety of passengers, and insensitive comments reportedly made by Uber executives (including Kalanick). But while he was losing the public-relations battles, he was leading-and winning—a broader business war with taxi companies, regulators, and competitors. At the beginning of 2014, Uber was in 60 cities; now it's in more than 250. Investors peg its value at a mind-boggling \$41.2 billion. Even more remarkable may be how Uber's deceptively simple app has changed the transportation landscape. Uber cars in New York City now outnumber the iconic yellow cabs. New York won't be the last place that happens.





JIMMY FALLON HOST / THE TONIGHT SHOW

In a time slot dominated by barbed-tongued critics, Fallon has led latenight TV—and his nearly 4 million nightly viewers, "coveted younger demo," and 6.7 million YouTube followers-to an unapologetic joy, filled with hiphop dance-offs, lip-sync battles, and Everyman effervescence. It's an improbable cultural feat: After just a year on the job—and surrounded by Twitter wars, celebrity smackdowns, and caustic commentary—Fallon is making "nice" seem pretty cool.



DANIEL BARENBOIM **GENERAL MUSIC** DIRECTOR / BERLIN STATE OPERA

The Argentina-born pianist and conductor, who holds both Israeli and Palestinian citizenship. has long used his prominence to try to nurture peace in the Middle East, founding with the late scholar Edward Said 16 years ago the West-Eastern Divan Orchestra to bring together young Israeli and Arah musicians. "You can't make neace with an orchestra," he once told The Guardian. But you can "create the conditions for understanding."





ADAM SILVER COMMISSIONER / NBA

Just three months into his term. Adam Silver won accolades for defusing a crisis by banning L.A. Clippers owner Donald Sterling [till then one of Silver's employers from the NBA for his racist comments. The new commish is energetic and creative. He's talking about shortening the preseason to alleviate the grueling demands on players and tweaking the playoff structure to improve competitiveness. He has even endorsed a form of legalized betting, which could pay off for the league.

No.48



RICHARD LIU FOUNDER AND CEO / JD.COM

Richard Liu runs his business bia. His e-commerce giant (and Alibaba rival) JD.com has a delivery team of more than 20,000 people so as to quarantee sameday service in 130 districts and counties in China. But Liu, who may well be a billionaire after the company's IPO last year, leads with a mighty small eqo. He has few of the trappings of a celebrity CEO and still spends a day every year as a JD.com deliveryman. Yeah, that's him-on the tricycle scooter.

IN ADDITION TO HANDLING A VERY CHARGED AND DIVISIVE SITUATION. **ADAM SILVER** HAS CONTINUED TO MAKE GREAT **PROGRESS** EXPANDING THE NBA FRANCHISE GINRALLY:

 KEN CHENAULT CEO/AMERICAN EXPRESS $N_0.49$



JOHN MACKEY CO-CEO, CO-FOUNDER / WHOLE FOODS MARKET

When Mackey cofounded the precursor to Whole Foods in 1978, natural and organic products were for hippies. Now the Austinbased retailer is not only tapping into consumers' shifting habits but wielding powerful influence in a food movement that has changed the way people eat and affected everything from farming to labeling. Mackey is also leading another movement—this one called "conscious capitalism"that urges a more ethical way of doing business.

No. 5()



DIRECTOR / JAPANESE CENTER FOR INTL. STUDIES IN ECOLOGY

Mivawaki, a professor emeritus at Yokohama National University, has spent his life promoting the benefits of native forests-more readily restored when land is damaged and more effective at fighting climate change than forests dominated by imported species. Now 87, he has planted 40 million trees in 15 countries, including new woodlands in his native Japan. The trees, it seems, are much better shields against a tsunami than concrete barriers. 📭



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UNIVERSITY OF VIRGINIA CHIEF TERESA SULLIVAN HAS PERSEVERED THROUGH AN ABORTED COUP, THE AFTERMATH OF TWO STUDENT MURDERS, A SCANDAL OVER AN ALLEGED GANG RAPE, AND THE RECENT FALLOUT FROM THE BLOODY ARREST OF A BLACK STUDENT BY WHITE OFFICERS. DOES THAT MAKE HER A GOOD LEADER?



HEN ROLLING STONE

published a 9,000-word article last fall about an alleged gang rape at a University of Virginia fraternity, it plunged the campus into turmoil. The

story presented a frightening portrait of a school where sexual assaults were common. It pointed to disturbing deficiencies—going all the way to the top—in the school's handling of the incident.

How did UVA's president, Teresa "Terry" Sullivan, respond to the brewing crisis? She left town. Just hours after the story broke and lit up the Internet, she boarded a plane to Amsterdam to attend an education conference. Three days later she suspended social activities at all UVA fraternities and sororities, a move that exposed her to new criticism: that she had swung from underreacting to overreacting. Before a consensus could be reached on her approach in the weeks that followed, she caught a break: *Rolling Stone* acknowledged that its article was full of holes. Now, a few months later, as Sullivan has taken long-term steps to prevent sexual violence at the school, she is starting to draw praise.

Welcome to managing in the maelstrom.

"We don't get to choose our adversity," says Sullivan, who has certainly faced plenty of it. In the five years since she arrived in Charlottesville as the first woman to lead the school founded by Thomas Jefferson, she has grappled with the effects of the *Rolling Stone* article, two high-profile murders of students, and most recently, demonstrations over the bloody arrest of a 20-year-old black student by white officers outside a local pub.

That's not even counting the most direct challenge she has faced. In 2012, UVA's board of visitors ejected her, leaving her out of a job for 18 days until a grassroots rebellion returned her

to the presidency. That she is still standing is extraordinary.

Sullivan's experience is proof that you can't judge leadership without considering context. No leader aspires to tread water, but if you're tossed into the Pacific when a tsunami strikes, merely surviving is an achievement. That's the paradox of Sullivan: Critics, including board members, find her plodding and bureaucratic; even supporters would give her just a "B." Still, she'd get an "A" if the subject were rebounding from disaster.

THERE WERE many skeptics in 2010 when UVA recruited Teresa Sullivan to replace John Casteen, a charismatic fundraising powerhouse with a 20-year tenure. Sullivan, then provost of the University of Michigan, had

the University of Michigan, had never run an institution or raised money or reported to a board. She had been an eminent sociologist specializing in labor force demography. (Sullivan has written six books, including two on middle-class debt with Elizabeth Warren, the Harvard professor turned senator.) Today Sullivan is in charge of a \$2.8 billion budget, 17,000 employees, and some 21,000 students at 11 schools and a medical center. (I graduated from UVA in 1982.)

At 65, Sullivan comes across more like a grandmother than a chief executive. Welcoming me into her office, she explains that Casteen kept his desk near the door; she put hers in the back corner. "Behind the jungle," she tells me, pointing to a couple of big, leafy potted plants.

Pleasant and plainspoken, Sullivan acknowledges that she prefers her privacy (though she makes a point of being omnipresent at campus events.) She also discounts the importance of leaders, herself included. "Sociologists are very suspicious of biographical explanations of leadership," she says. "It's a mistake to see leadership as a function of the individual." Americans tend to have a destructive overemphasis on the individuals in charge, she says: "We do too much naming, blaming, and changing." By contrast, Sullivan aspires to be what she calls "a sustainable leader who builds a team and leads collaboratively."



Sullivan ascends to UVA's Rotunda in June 2012 to give her farewell address. The huge demonstration caused UVA's board to reinstate her.



AN UNDERGRADUATE MURDERS A FELLOW STUDENT

IN MAY, only months after Sullivan was named UVA's president—but three months before she took office-student lacrosse player Yeardley Love was killed by George Huguely V, her former boyfriend and a star on the men's lacrosse team. Huguely was convicted of murder and is serving a 23-year sentence. Sullivan oversaw new student education on domestic violence and "bystander intervention training."

A PRESIDENTIAL COUP IS UNDONE AFTER A BIG PROTEST

ON JUNE 8, less than two years into her term, Sullivan was confronted by board rector Helen Dragas and vice rector Mark Kington, who asked for her resignation. By June 18, when Sullivan appeared before the board for a farewell speech, there had been a populist uprising at the university. On June 26 the board. facing a torrent of criticism, voted unanimously to reinstate Sullivan as president.

FIVE YEARS OF CRISES

TERESA SULLIVAN HAS FACED A STREAM OF VIOLENCE AND CALAMITIES AS PRESIDENT OF UVA.

2014

ANOTHER DEATH—PLUS UVA IS SCRUTINIZED FOR SEXUAL ASSAULT

IN SEPTEMBER freshman Hannah Graham went missing. After six weeks her remains were found: a 33-year-old local man was later charged with her murder. A media firestorm erupted on Nov. 19, when Rolling Stone published a story about an alleged gang rape at a UVA fraternity. Sullivan left town, then, on Nov. 22, suspended social activities at all UVA fraternities and sororities. On Dec. 5, Rolling Stone apologized for its article.

2015

THIS TIME IT'S ABOUT RACE: UVA MAKES HEADLINES AGAIN

SULLIVAN BEGAN the year still addressing ways to prevent sexual assault. In January she lifted the suspension on social activities and announced new safety rules. On March 18, 20-year-old black student Martese Johnson was bloodied by white officers during an arrest after Johnson was denied entry to a bar. Student protests erupted within 24 hours of the incident.

Her view has been shaped not only by her time at UVA, but also by her childhood. Sullivan grew up an only child in segregated Little Rock. Her father was a criminal lawyer with many black clients. On weekends he would take her along as he called on clients in rural Pulaski County. "He usually left me with Pop Lloyd, who had been convicted of manslaughter for killing his wife," Sullivan recalls. Her father led by example, showing her that empathy and trust can unite diverse groups. "Sometimes we'd have Sunday dinner with the Pulaski County jailer. He would let me in the cell with the female prisoners, and they'd braid my hair," Sullivan says. "Today this would break a million laws."

Her dad died from a heart attack when Sullivan was 11. She and her mother, a VA hospital nurse, moved to Jackson, Miss.—on the day in 1963 when a white supremacist killed civil rights leader Medgar Evers there. Sullivan went to school a few blocks from the state capitol, where she saw crowds demonstrate for and against integration.

Sullivan graduated first in her high school class, then went to Michigan State, where she fell in love with her future husband, Doug Laycock, and a field of study. Sullivan got a Ph.D. in sociology at the University of Chicago and then a job teaching at the University of Texas, where she later moved into management. "I didn't have a burning desire to be an administrator," she says, "but I did have a burning desire to solve problems."

Analytical and adept at working the system, she quietly pushed for changes, including the creation of a maternity policy when she was pregnant with her second child. At the University of Michigan, where Sullivan moved in 2006, she was provost under then-president Mary Sue Coleman. "Terry is an enormously complex individual and very, very smart," says Coleman, explaining that she provided a steady hand in helping the school navigate the financial crisis.







In 2012, Helen Dragas and Paul Tudor Jones viewed Sullivan as too passive and not a visionary. They wanted a different president.

Sullivan arrived at UVA three months after 22-year-old student athlete Yeardley Love was killed by George Huguely, her ex-boyfriend and a star on the UVA lacrosse team. So from day one, Sullivan was forced to react to events. She staged a "day of dialogue" that brought more than 1,500 students together to discuss how to prevent violence. She also implemented voluntary sessions on "bystander intervention training."

But Sullivan was thoroughly unprepared for a different kind of challenge: the hard-driving business types on UVA's board of visitors. It's like a company board, except that the members are appointed by Virginia's governor, typically as a reward for campaign contributions. The members choose the rector, who is equivalent to a board chair. The incoming rector when Sullivan arrived was Helen Dragas, who has a BA and an MBA from the university. Dragas, 53, heads a real estate development company that her father founded. She is, by all accounts, impatient, iron-willed, and used to running her own show.

Sullivan and Dragas are the first women to hold their posts at UVA—which didn't graduate its first class of female students until 1974. That's about all they have in common. Opposites in personality, they've never found a way to get along. As Dragas fretted that rivals were leaving UVA in the dust in online education and other new potential sources of revenue, she pushed Sullivan to come up with a fresh strategy. Sullivan resisted, failing to deliver anything detailed enough for Dragas and the board. They viewed Sullivan as an able administrator, but worried that she had an awkward public presence and lacked the social finesse critical to courting wealthy donors.

Sullivan sensed the tension, but she had no clue what was coming when Dragas asked for a meeting with her and vice rector Mark Kington on a Friday in June 2012. "They handed me a letter of resignation," Sullivan recalls. "They said I had lost the confidence of the board. The faculty didn't like me. The students didn't think much of me. And I had not developed connections with alumni." Sullivan disagreed, but she didn't

"THE CROWD PARTED LIKE THE RED SEA," SULLIVAN RECALLS OF THE THRONGS WHO HELPED OVERTURN HER OUSTER.

resist. "They had their minds made up," she says. "It was not a negotiation."

Critics piled on. Hedge fund titan Paul Tudor Jones, an alum and UVA's biggest living donor, published an op-ed in the Charlottesville *Daily Progress*, citing a "few alarming facts" including that the university's rank in *U.S. News & World Report* had fallen to No. 25 from No. 15 in 1988. "UVA needs proactive leadership to match the pace of change," Jones wrote.

But the story quickly turned. Dragas had worked behind the scenes to persuade board members to agree to push Sullivan out. The board's bylaws did not require a formal vote or public disclosure. The sense of secret maneuvering infuriated faculty and other supporters. Ten days after her ouster, as Sullivan went to deliver a farewell address to the board, thousands of people—faculty, parents, alums, townies, students attending summer classes—converged on UVA's Lawn. As Sullivan walked up the steps of the Rotunda, a woman behind her held a purple umbrella as a signal to clear the way. "The crowd parted like the Red Sea," recalls Sullivan. She calls the entire experience "weird."

Sullivan insists she had no desire to ask for her job back. She just wanted to defend her record. "Corporate-style top-down leadership doesn't work in a great university," she told the board that day. "Being an incrementalist does not mean I lack vision." Eight days later, after Virginia's governor said he'd ask the board members to resign if they didn't unite on a plan for UVA's leadership, they unanimously reinstated her. (Dragas says the board wanted "a concrete strategic and financial plan. Had we received even a reasonable approximation of that, the drama of 2012 would never have unfolded.")

Some people were amazed Sullivan would return after the upheaval. "A lot of people put their jobs on the line for me," she says, "and I couldn't turn my back on them." (There's also the job's pay, \$675,000, and its prestige.) She showed no hint of public anger. "The most important thing was how I behaved," Sullivan says, "not how I felt."



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TO SHUT DOWN," SULLIVAN
SAYS OF HER PERSONALITY.
"I'M INCLINED TOWARD
INTROSPECTION AND NOT LETTING
THE EMOTION OVERTAKE THAT."

Her dispassion doesn't always play well in a social media era when bad news moves around the world instantaneously, and crisis managers are expected to be nimble, bold, and empathetic. "My natural tendency is to shut down," Sullivan admits. She's self-conscious about being a woman in charge: "There's a negative stereotype of women being overemotional and thus not able to lead." On a deeper level, she says, "I'm inclined toward introspection and not letting the emotion overtake that."

Her leadership philosophy: "Don't overreact. Reason my way to a solution. And keep the good of the school in front of me." Those were her guidelines last November when she read the *Rolling Stone* article about the alleged gang rape of a student at UVA's Phi Kappa Psi house. Her initial response, she says, was "numbness." She acknowledges that leaving the country as the story exploded was "a mistake."

She does not, however, regret her decision to suspend social activities in the Greek system. After Phi Kappa Psi was vandalized and threats surfaced, she says, "I was attempting to calm things down." Discrepancies emerged in the article, and, in late March, the Charlottesville police department announced that it had found no evidence that a gang rape had occurred.

Sullivan hopes to turn the mess to the school's advantage: "I want the University of Virginia to play a major role on the issue of sexual assault," she says. Sullivan worked with student leaders on new rules to crack down on binge drinking and frat party excesses. Now at least three fraternity brothers must be "sober and lucid" at all fraternity events, and at least one must be on duty at each point of alcohol distribution and another at the stairs leading to residential rooms. "If I had come up with the rules, everyone would be gaming the system," Sullivan says. Collaboration "is more successful than Mama Terry calling the shots." The *New York Times* praised the code of conduct as "worthy of being used elsewhere."

Sullivan has made strides on other fronts. She has increased faculty pay and research spending. She's working to create institutes for professors from across the university to collaborate and teach. The first, an institute for students interested in data analytics and security, opened last fall.

Sullivan has been unspectacular when it comes to fundraising, which is particularly crucial at a time of diminishing state funding. UVA reported \$224 million in cash flow (actual money coming in) last fiscal year, which pales next to the \$302 million her predecessor delivered in his peak year, 2007. But this year's cash flow is up 29%, and Sullivan has managed to reel in some big donors. She has even been collaborating with Paul Tudor Jones on his passion project: a new \$15 million Contemplative Sciences Center he is funding.

UVA's board of visitors is now discussing whether to renew Sullivan's contract, which runs out in July 2016. She would like to stay, but it says something about her that she doesn't know if she has cemented enough board support to win a new contract.

Meanwhile, Sullivan is managing one more crisis, this one centered on race. In March, Martese Johnson, an African American student and a vice chair of the student-run honor committee, sustained head injuries when white Alcoholic Beverage Control officers tangled with him outside a bar. A cellphone camera caught him struggling and bloodied, yelling, "I go to UVA, you fuckin' racists. What the fuck? How does this happen?" Johnson has pleaded not guilty to public intoxication and obstruction of justice without force.

Within 24 hours, students began protesting. Frustrations had been rising in the wake of the deaths of black men at the hands of police in Ferguson, Mo., and New York City—just as Sullivan was struggling to deal with student drinking and sexual assault. Today many at UVA see her reaction to the Johnson incident—she called the governor, requested an investigation, and released a bland statement about "seeking the truth"—as inadequate. Incoming student council president Abraham Axler says Sullivan has been a "friend to the student council and accessible" but has "struggled to provide the emotional leadership that the community needs."

Says Sullivan of the latest episode, "I did my best to get in front of it immediately." She adds, "If I were highly emotional, I would be criticized for that." Treading water all the way, Terry Sullivan has created a legacy. And that legacy is now her problem.

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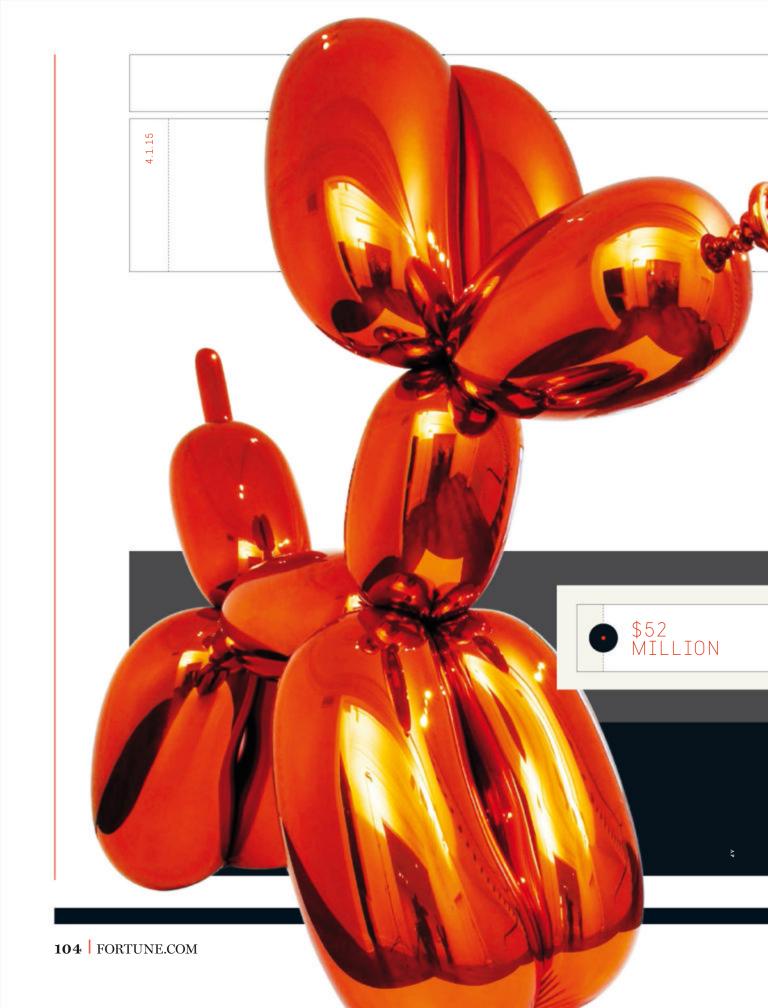
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GOES

THE ART MARKET

PRICES HAVE INFLATED TO RECORD LEVELS-BUT THAT MAY NOT BE GOOD NEWS FOR SOTHEBY'S AND CHRISTIE'S.

BY STACY PERMAN

JEFF KOONS "Balloon Dog (Orange)" Christie's

The sculpture, sold in November 2013, set a record for a work made by a living artist.

RISING REVENUES, FALLING PROFITS



N NOVEMBER the world's two biggest auction houses reported that a staggering \$2 billion-plus in contemporary art had been sold in a matter of days at their fall auctions. A roster of pieces by Andy Warhol, Mark Rothko, Alberto Giacometti, and others took the prices of modern and contemporary art into a stratosphere once limited to older classics. The Dom Pérignon, it seemed, was flowing in the executive suites of Sotheby's and Christie's.

Less than a month after the record auctions, the CEOs of both companies announced they were stepping down. What in the name of Francis Bacon was going on? Underneath the gorgeous veneer of blowout sales figures, it turns out, the financial picture for the auction houses is considerably less appealing.

Call it the art-world paradox: The market is euphoric, cash is gushing-and the French-cuffed, bespoke-suited Sotheby's and Christie's have responded by engaging each other in a knife fight for market share.



DIMITRY LEKAY/KOMMERSANT/ZUMAPRESS-NEWSCOM

Only in this case, it seems, they are plunging their ivory-handled daggers into their own legs as much as they are wounding their rivals. The proof: Last year Sotheby's enjoyed a 6% increase in revenues but suffered a 9% decrease in profits. Christie's is private—it strenuously insists its earnings are up but when some numbers slipped out a year ago, well, the trend looked a lot like Sotheby's.

In most industries middlemen make a mint when sales are soaring. That is usually not the case in the world of eight- and nine-figure paintings and sculptures. "As art prices go up and there's growth in the market, margins go down inversely," says Michael Plummer, former chief operating officer of Christie's Financial Services and now a principal in the art advisory company Artvest Partners.

One culprit with potential for significant damage: guarantees. Sotheby's and Christie's are so eager for the market share, prestige, and future business that come with prominent sales that they have taken to offering sweeping inducements for the rights to auction important pieces of art. Canny sellers are playing the two against each other and extracting promises that the houses will pay a minimum price even if

nobody buys the work in question.

The bidding between Sotheby's and Christie's has become more frenzied than anything that occurs during the actual auction. In a number of instances, the houses have extracted only small, if any, fees on headlinemaking mega-sales. For example, when Jeff Koons's "Balloon Dog (Orange)" was auctioned for \$52 million in 2013. it was trumpeted as a record for a contemporary piece. But by Fortune's calculation, Christie's actually lost a modest sum on the transaction.

"I think we are in a fairly crucial moment in the art market," says David Nash, who was a top Sotheby's executive before co-founding the gallery Mitchell-Innes & Nash. "It will be interesting to see if the sort of reckless competition between Sothe-



WILLIAM RUPRECHT

"We are out of the quarantee business for a while." the Sotheby's CEO said in 2008. Ultimately, though, Ruprecht oversaw a surge in guarantees. He announced his plans to leave in November and stayed on through the end of March.

by's and Christie's to get property away from the other will continue."

The guarantees, as we'll see, could pose a real risk. Sometimes works don't sell or the bidding doesn't reach the minimum price, and the two houses are increasingly finding themselves owning many millions of dollars' worth of art. The next time the market tumbles, Sotheby's and Christie's could end up holding a very expensive bag.

HE RIVALRY BETWEEN Sotheby's and Christie's just may be the longest in business history. After all, when Christie's—the spunky upstart, relatively

speaking—was founded in London, King George III was still early in his reign, confident that those bothersome colonists on the other side of the Atlantic would be brought to heel. Next year will mark the 250th year in which the two auction houses have been competing with each other, making, say, Coke vs. Pepsi seem like a recent tiff by comparison. Sotheby's and Christie's

are the behemoths of their realm; together they control 55.3% of global auction revenue.

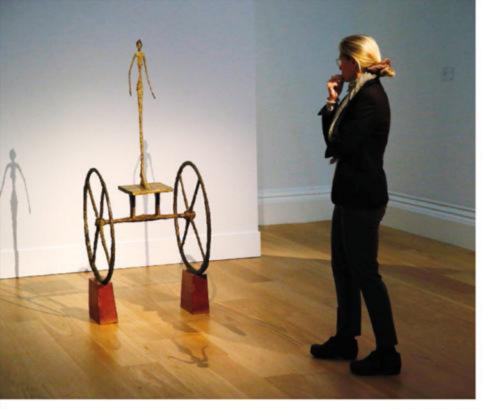
The one time the duopoly made nice in recent decades, the result was disastrous: In the mid-1990s Christie's and Sotheby's were accused

THE FIVE SALES IN 2014 (EXCLUDING COMMISSIONS)

of conspiring to raise commission rates. In 2000, Sotheby's pleaded guilty to criminal price-fixing, while Christie's turned state's evidence. Sotheby's chief, Alfred Taubman, went to federal prison. Christie's head, Sir Anthony Tennant, was indicted but refused to fly to the U.S. to face the charges; he died years later having never gone to trial. The two houses paid a combined \$512 million civil settlement to its clients. (The good news about the brawl these days: It's hard to imagine the two are in cahoots.)

The case affects the houses to this day; it forced them to explore different ways of raising revenues. They sharply accelerated the use of guarantees, which they had already been experimenting with. In exchange for taking a risk by committing to cover a minimum sale price, the houses would get a potential windfall: a percentage of any amount the work sold for above an agreed-upon price.

But the guarantees backfired in 2008. The houses offered too much and received too little in upside. In the depths of the financial crisis, Sotheby's and Christie's were left owning hundreds of millions of dollars' worth of unsellable art. Sotheby's reported losing \$78 million on guarantees in 2008, wiping out three-quarters of the year's profits. CEO







\$90 MILLION

ALBERTO GIACOMETTI "Chariot" (above) Sotheby's



\$75 MILLION

BARNETT NEWMAN "Black Fire I" (right) Christie's



\$73 MILLION

ANDY WARHOL "Triple Elvis (Ferus Type)" (above) Christie's



William Ruprecht vowed that "we are out of the guarantee business at least for a while."

"For a while" turned out to be the operative phrase. As art prices rebounded, so did guarantees. In recent years, Christie's has been viewed as the more aggressive player, gaining market share and making expensive commitments. It now commands 55% of the fast-expanding contemporary art market, vs. 36% for its main rival. Sotheby's has been trying to catch up.

Because Sotheby's is publicly owned, its finances receive greater scrutiny. Dan Loeb, CEO of its largest shareholder, Third Point, has been especially vociferous. When the activist hedge fund investor began to agitate for change in 2013, he slammed Sotheby's as "an Old Master painting in desperate need of restoration." He rejected its claim that its "lower market share was due to uneconomic and predatory behavior by Christie's." In one of many acid-tinged public rebukes, Loeb wrote, "It has been Sotheby's who has most aggressively competed on margin, often by rebating all of the seller's commission and, in certain instances, much of the buyer's premium to consignors of contested works."

In May, Loeb and two allies received board seats. Since then he has gone silent about Sotheby's in public (he declined requests for comment), and so far there's little sign that he has had a dramatic impact on the company, though he was certainly advocating a new CEO. (Ruprecht, the chief whose departure was announced in November, was slated to leave on March 31, when Tad Smith replaces him.)

There was plenty to irk a Dan Loeb in Sotheby's 2014 results, which it announced in March. Despite the epic art boom, for example, the company's profits were roughly half their 2007 peak. One key metric was ominous: "commission margins," Sotheby's revenues as a percentage of auction sales. That figure has been steadily dropping, from 16.5% in 2011 to 14.7% in 2014. The last time the margins dropped to such levels was right before the financial crisis. In Sotheby's earnings call to discuss the 2014 results, chief financial officer Patrick McClymont acknowledged that the margins shrank "due to competitive conditions for winning high-value consignments."

Christie's, privately owned by French luxury-







FRANCIS BACON
"Three Studies for a Portrait of John Edwards"
Christie's



\$63 MILLION
AMEDEO MODIGLIANI
"Tête" (right)
Sotheby's



goods tycoon François Pinault, reveals few financial details beyond its sales (\$8.4 billion in 2014, an increase of 17% from the previous year). The picture looked less rosy after some rare profit numbers came into view last year when income statements from Christie's holding company were published in the *Wall Street Journal*. Christie's auction sales increased from \$5.3 billion in 2012 to \$5.9 billion in 2013, but profits dropped from \$153 million to \$123 million. Commission margins proved even worse than Sotheby's, sinking from 15.2% to 10.7%.

A

UCTION HOUSE VETERANS acknowledge that the quest for market share sometimes reaches irrational heights. "Listen, there are moments of 'Let's just win," says one

former executive. "If we lost three in a row, it becomes, 'Let's win this for momentum and confidence for the team.' It's like any sporting event." To make the competition more intense, a passel of collectors, dealers, and international financiers have increasingly been offering guarantees too. In theory, that should provide a safety valve for the auction houses, allowing them to reduce their risk. But in the reality of a scorching market, it has pumped up the pressure for the auction houses to make pricey promises. In the fall auctions some 45% of the important evening sales at Sotheby's and Christie's had a guarantee by the house or an investor.

And so the inducements mount. Where once sellers haggled with the houses over whether a piece of art would be featured on the cover of the auction catalogue and over relatively small costs, such as who would pay for insuring the art during the sale, now Sotheby's and Christie's routinely spend lavishly on glitzy marketing campaigns and presale exhibitions of the works.

They even concede their two fundamental fees, which form the core of their income. The houses (as Loeb pointed out) now frequently waive the commissions they charge the seller, and sometimes give the seller a piece of the "buyer's premium," the commission paid by the other party. Suddenly an eight- or nine-figure price tag isn't as lucrative as it appears.

A presentation by Artvest in 2013 noted that "Christie's recently secured a high-profile, highly valuable 20th-century art consignment by offering the consignor 115% of the selling price, thus accepting the deal at a certain loss just for market share and prestige."

Or consider the sale of Giacometti's "Chariot" in November. Sotheby's predicted that what it called one of the "definitive achievements of 20th-century art" would set a record—above \$100 million. It promised the sculpture's owner, Greek shipping heir Alexander Goulandris, that he would receive a minimum price. But the outsize hopes fizzled. The bronze sculpture attracted only one bidder, later revealed to be hedge fund billionaire Steve Cohen, who obtained the work for \$90 million (plus an \$11 million buyer's premium). The Giacometti now rates as one of the most expensive sculptures ever sold at auction—but the house reportedly lost several million on the deal. (Sotheby's declined to comment on individual sales.)

Critics charge that guarantees lack transparency and are a minefield of conflicts of interest, favoritism, and inside information. The auction house is required to disclose the existence of a guarantee but not the name of the person making it or the amount. That opacity feeds tales of guarantors, their identities unknown to other potential buyers, bidding up the prices on lots in which they have a financial stake.

There's no mystery, counters Sotheby's co-head of contemporary art, Alexander Rotter. "We are a public company," he says. "Auctions are public. When someone bids \$5 million on a painting, it is clear what the bid is and what is paid. It is much more transparent than the private market."

Rotter's equivalent at Christie's, Brett Gorvy, is similarly dismissive. "There is no big secret going on," he insists. If there is a perception of opacity, he says, it derives from the confidentiality of the agreement between the house and the seller, put in place to protect the seller. "It doesn't affect the mentality of the buyer," he says. "It's a private deal, one between the seller and auction house. It is not relevant in determining the price of a work."

OTHEBY'S AND CHRISTIE'S show no signs S of dialing back their use of guaranteesand it's clear they are material to the companies' finances. It's worth noting that the soaring scale of art prices can create the impression that, say, Sotheby's is much bigger than it actually is. Yes, the company handled \$6.7 billion in sales last year, but its actual revenues were \$938 million.

As of right before the November sales, Sotheby's had guaranteed \$170 million worth of art. The company has doubled the upper limit on its outstanding auction guarantees from \$300 million to \$600 million, according to its financial statements. By comparison, Sotheby's had \$116 million in profits last year, according to S&P Capital IQ, and \$420 million in cash and equivalents at the end of 2014.

There's a second telling metric in Sotheby's financials: the value of its "inventory," guaranteed property that didn't sell (or to a much lesser degree, art that buyers defaulted on). That number has quintupled, from \$32 million in 2012 to \$158 million last year. When an item doesn't sell at auction, it is considered tarnished. It's either kept off the market for several years or sold off privately at a steep discount. Either way, the piece incurs losses, though they can be hard to see on the financials because of the time lag and the fact that they're not broken out as their own category.

The two houses insist they face no significant risks from their price commitments. "Sotheby's has been strategic and prudent with guarantees and uses them when we feel strongly about the artwork and confident in our ability to sell it for our consignors," says a

company spokesperson. "That will continue this year." Says Christie's Gorvy: "We take a calculated risk... We are not gambling blindly." He says a high-value work with a guarantee, such as Koons's "Balloon Dog," may not generate a profit on its own, but it brings in buyers for other works who make the overall auction profitable. A Christie's spokesperson adds that its catalogues alert potential buyers as to which artworks are "subject to a minimum price guarantee or if the company has a financial interest in a lot."

Both firms seem to be addressing their shrinking profit margins only around the edges. Christie's implemented a new 2% "success fee," charged to sellers whose artwork exceeds the high estimate. In February, Sotheby's raised its rates for buyers (for instance, applying a 25% fee on the first \$200,000 paid, rather than on, as previously, the first \$100,000). But those seem like incremental steps rather than a long-term strategy.

After 21/2 centuries of competition, is either of the antagonists likely to ease up in the blood feud for market share and focus more on profits? Asking the question, as the old phrase goes, seems to be its own answer. For now the two will keep playing the guarantee game, something Artvest's Plummer likens to "mortgaging your house and then going to Vegas." As he puts it, "It may be an educated-guess bet you are making about the market. But that doesn't account for sudden and unexpected things to happen in the larger macroeconomic world." Many billionaire art buyers these days come from countries encountering turbulence, such as Russia (sanctions, a plunging currency) and China (a slowing economy). The last art plunge was only seven years ago. Even companies that are centuries old, it seems, can

FEEDBACK letters@fortune.com

forget history.

STEVEN MURPHY

Christie's CEO surprised observers by stepping down at the end of last year after four years in the ioh The company's announcement did not offer a reason for his departure.



A FEW WEEKS AGO, Google CFO Patrick Pichette made a big splash among the digerati when he resigned from his august corporate position to "spend more time with his family." Aware, perhaps, that the explanation might engender some snickering, he penned a letter of farewell to all that (which went viral), and offered a lengthy and thoroughly Google-ish disquisition elaborating on all the wonderful things he would do with his family for the rest of his life-he's 52-including trips to Kilimanjaro and other adventures. "I could not find a good argument to tell Tamar we should wait any longer for us to grab our backpacks and hit the road," he wrote. Tamar is his

wife. Me, I imagine those are some high-end backpacks.

Don't get me wrong. I don't mean to cast aspersions. Perhaps I'm just jealous. I've always wondered what life was like for those who, after a lifetime of wage slavery, are launched from the bosom of the corporation. I decided to take a look at what happens when formerly powerful and overscheduled revenue engines abruptly find themselves living the dream. Was Pichette typical?

Coincidentally, thanks to recent downsizing events in a wide range of industries, there seem to be more than a few such individuals who are spending more time with their families. My friend Brewster is one such. I went to see him to find out what it's like.

From the beginning, apparently, it's been pretty wonderful. He was used to waking up at the crack of dawn for about 25 years or so. "Now I can sleep as late as I want," he told me, which, in his case, often means staying in the haystack and lounging about until 7:00 or 7:15 a.m. "Then I feel like I'm going to jump out of my skin," he said with a chuckle. Wow, I thought. That's luxury. He then waxed rhapsodic about the time he gets to spend with his high-school-age kids, who now actually have an opportunity to say hello to him on their way out of the house with a Pop-Tart in their mouths. Then he gets to spend more time with his wife for



eight or nine hours until dinnertime.

During those long, languid hours, he can surf the many websites that hold the minute-by-minute news of the day. For so long he barely had time to think about things amid the crush of daily duties and insanities. Now he has ample chance to review deals taking place in his business universe that he's not involved in, read about the exploits of former colleagues, follow their promotions, rejoice in the success of former subordinates, and ruminate on how his company's stock is doing now that he no longer receives any options in it.

A while ago, because a person has to do something other than enjoy himself, he took up golf and spent more time

with his family by disappearing off to a golf course for several hours a day. This was more fun than he expected, since it gave him a chance to hang with other folks who were spending more time with their families as well. There was also the joy of discovering athletic prowess he never knew he possessed. He now reports that, after allocating additional family time to some serious lessons, he has no doubt that he'll soon pull his handicap down into the double digits.

When I last caught up with my friend, he was at home, sitting on his patio while his family cavorted in the backyard. It was one of the first warm days of spring, the barbecue was going, and I didn't want to disturb this bucolic scene, but I had to ask him: "Dude, why are you in a business suit? Wouldn't you enjoy spending more time with your family even more if you were kickin' it in some comfy Bermudas with a feisty glass of Pinot by your side?"

"Dude," he replied, poking at his phone in what I can only describe as quiet frenzy. I could see he was on LinkedIn. "Something may pop any minute."

I said goodbye. Then I went back to spend more time at the office. I

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